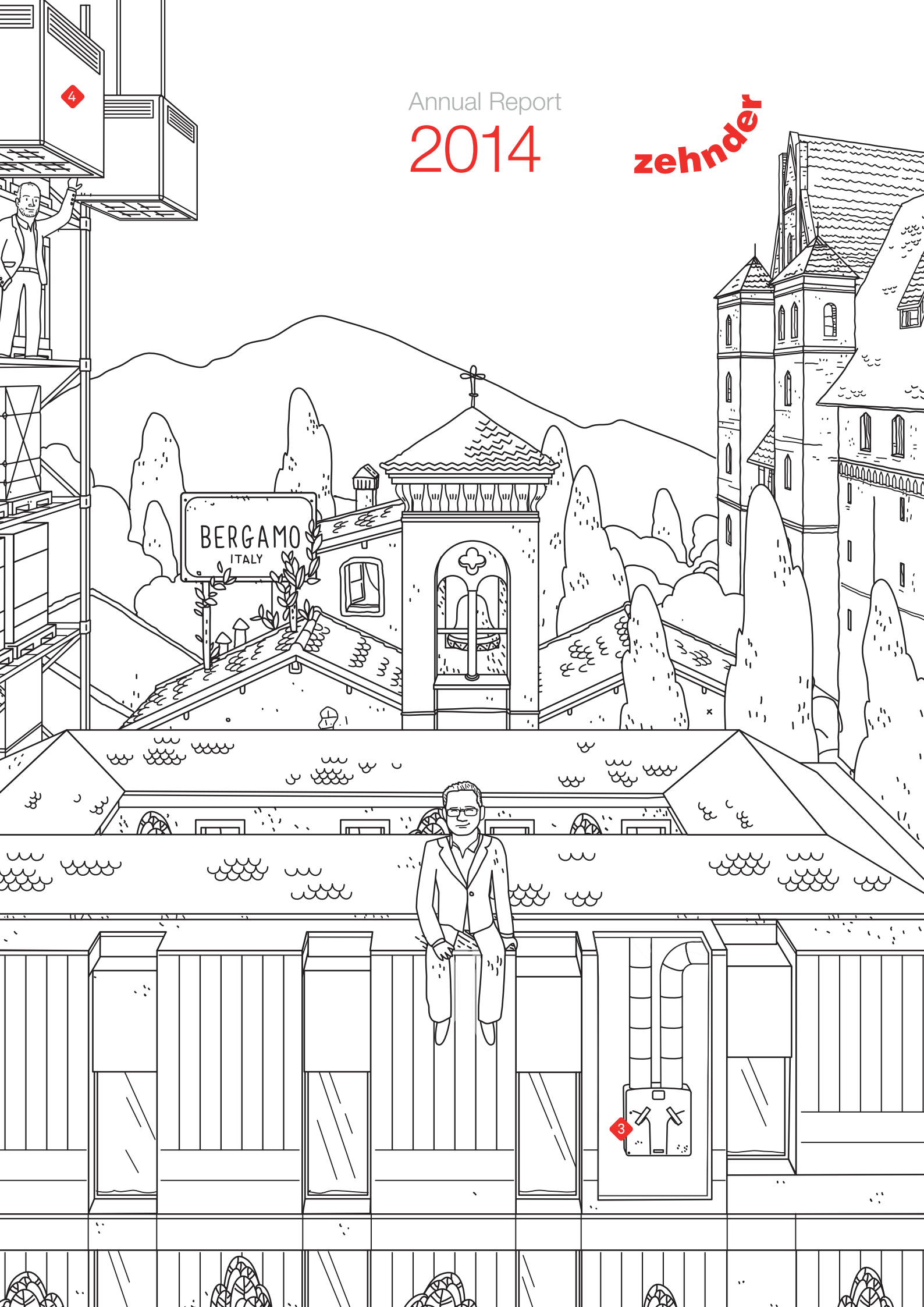


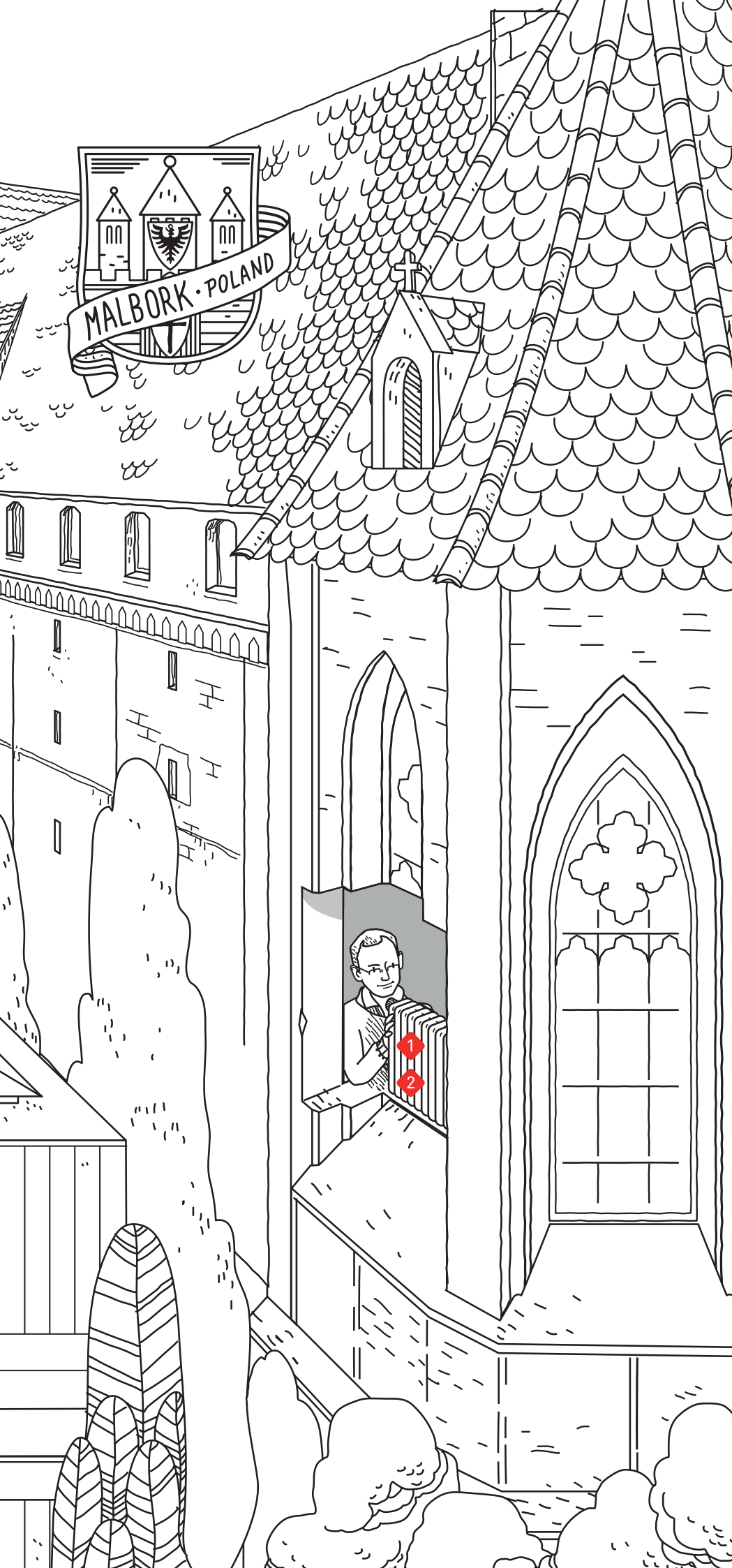
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Annual Report

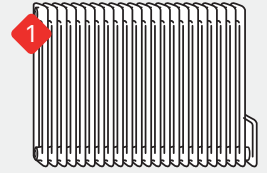
2014

zehnder

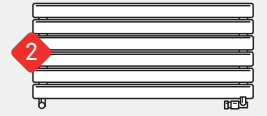




Malbork, Poland

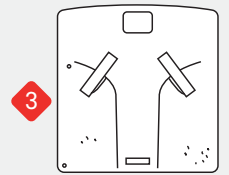


Zehnder Charleston



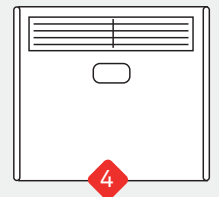
Zehnder Roda Plin

Bergamo, Italy



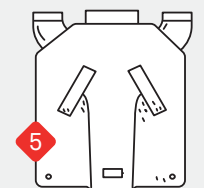
Zehnder ComfoAir 550

Stockholm, Sweden



Zehnder CleanAir 12

River Falls, USA



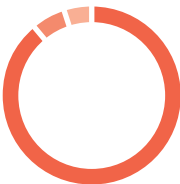
Zehnder ComfoAir 350

At a Glance

2014

Sales by region

EUR million



- Europe: 466.8
- North America: 33.4
- China: 24.9

Sales by segment

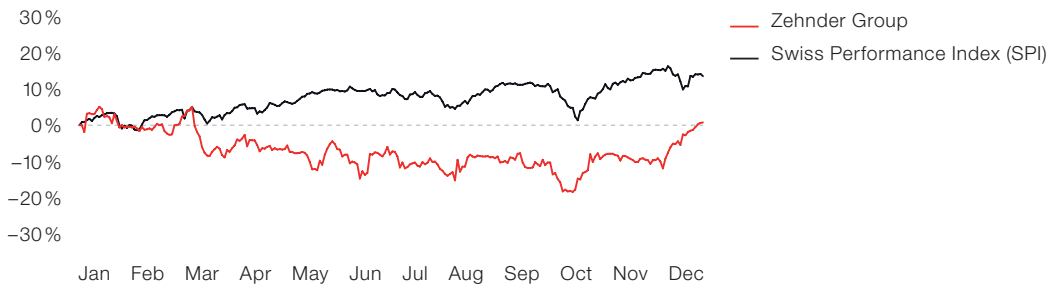
EUR million



- Radiators: 333.5
- Ventilation: 191.6

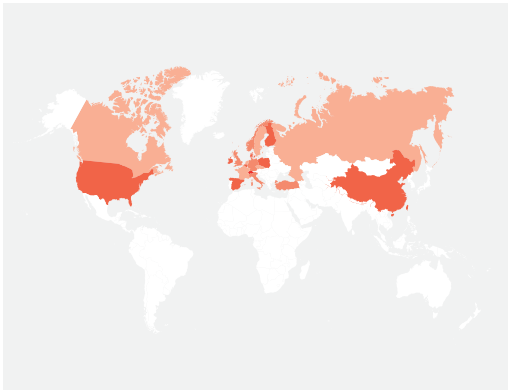
Share price

1.1. – 31.12.2014



Locations

→ Worldwide



- Europe
 - Belgium
 - Czech Republic
 - Denmark
 - Finland
 - France
 - Germany
 - Great Britain
 - Italy
 - Netherlands
 - Norway
 - Poland
 - Russia
 - Sweden
 - Switzerland
 - Spain
 - Turkey
- North America
 - Canada
 - USA
- Asia
 - China

Key figures

		2014	2013	%
Net sales	EUR million	525.1	522.4	0.5
EBIT	EUR million	32.7	32.3	1.1
	% of sales	6.2	6.2	
Net income^[1]	EUR million	26.0	18.2	42.8
	% of sales	5.0	3.5	
Net income before depreciation & amortization^[1]	EUR million	45.9	37.4	22.9
	% of sales	8.7	7.2	
Investments in property, plant & equipment	EUR million	24.1	35.1	-31.4
Depreciation & amortization	EUR million	19.9	19.1	4.0
Total assets	EUR million	429.7	412.6	4.2
Total fixed assets	EUR million	193.1	183.8	5.0
Shareholders' equity^[1]	EUR million	281.8	255.5	10.3
	% of total assets	65.6	61.9	
Number of employees	31 December	3,185	3,283	-3.0
Net earnings per bearer share^[2]	EUR	2.18	1.41	55.0
Net earnings per bearer share before depreciation & amortization^[2]	EUR	3.88	3.04	27.7
Shareholders' equity per bearer share^[2]	EUR	22.84	20.82	9.7
Zehnder Group AG				
Share capital	CHF million	0.6	0.6	-
Dividend per bearer share ^[3]	CHF	1.00	0.55	81.8

[1] including minority interests

[2] excluding minority interests

[3] for 2014 as proposed by the Board of Directors

Contents

2014

Group Review

- 01 Topic of the Year
- 02 Foreword from the Chairman of the Board
- 04 Zehnder Group in brief
- 06 Highlights 2014
- 12 Group Executive Committee Report
- 22 Sustainability
- 34 Corporate Governance
- 43 Compensation Report
- 56 Glossary

Financial Report

- 59 Consolidated Financial Statements
- 94 Zehnder Group AG
- 103 Further Information for Investors

Topic of the year

Visions of space

Whether for living, working, learning or recuperating, people need space – both figuratively, in terms of freedom, and literally, in terms of the building they inhabit. With its state-of-the-art indoor climate solutions, broad, modular product offering and great design affinity, Zehnder Group allows even the most sophisticated space concepts and requirements to be skilfully implemented. This Annual Report presents four projects from the international Zehnder Portfolio, with commentaries from proven architecture experts. With its products, Zehnder Group not only makes interior living spaces more pleasant but also provides a platform for discussing different interior design ideas.

Poland

In truly splendid surroundings, the two radiator models Zehnder Charleston and Zehnder Roda Plin successfully played their part in turning a mediaeval fortress into a major museum attraction. Welcome to Malbork Castle!



Sweden

Not only in the restaurant business, but also in wholesale catering, hygiene is a top priority. At Martin & Servera in Stockholm, Zehnder Clean Air units not only reduced dust levels but also helped increase productivity. A case study.



Italy

When a hotel is awarded five stars, it is a promise to guests that they will find only the best there. This is why the ComfoAir 550 comfort ventilation system was chosen when the luxury Relais San Lorenzo hotel in Bergamo, built on Roman ruins, was modernized.



USA

More than a mere idealistic dream – a real, brick-and-mortar social and sustainable housing project in River Falls, Wisconsin: the Eco Village. A success, not least thanks to the ComfoAir 350 comfort ventilation solution.



Foreword from the Chairman of the Board

In spite of all challenges we are well positioned for the future, due to never ending commitment and continuous improvement



→ Hans-Peter Zehnder, Chairman of the Board of Directors

Ladies and gentlemen

The 2014 business year was a challenging one for us. Economic growth in our important European market was flat and construction declined slightly. In China, economic growth remained stable, but the volume of new residential property under construction fell by almost a third. Growth accelerated in North America, as a result of which private residential construction developed positively, while public construction activities remained at a low level. Zehnder Group's total sales, at EUR 525.1 million, exceeded the 2013 level. We were able to increase market share slightly in many countries and numerous product groups and therefore succeeded in strengthening our strategic potential for success.

Pleasing improvement in results

The measures implemented to boost efficiency and reduce costs in 2013 continued in 2014 and resulted in a

pleasing improvement in operating results before interest and taxes (EBIT). At EUR 32.7 million, this was only slightly above the 2013 level (EUR 32.3 million). There was, however, a one-time gain of EUR 9.2 million in 2013 generated through the sale of a building in China. If we exclude this effect, we can see that there has been a clear improvement in earning power. The EBIT level however still remains unsatisfactory and we will therefore be working intensively on further increasing profitability in the coming years.

Growth in ventilation systems compensates decline in radiators

Sales of radiators fell by 2 % in Europe compared with the previous year. With the exception of Great Britain and Poland, decline was seen in almost all other countries. In contrast, sales of ventilation systems rose by 6 %,

although we recorded lower sales in the important markets of France, Switzerland and the Netherlands.

In China, where government measures to counter the overheating of the housing market have severely curbed new residential construction, sales of radiators fell and those of ventilation systems rose significantly. The overall result was a decline in sales of 5 % in local currency. In North America, the demand for comfortable, healthy, energy-efficient solutions increased strongly and resulted in significant growth in the ventilation system sector. Radiator earnings were lower than in 2013. Overall, sales increased by 2 % in local currency.

Continuing high investment for the future

We strive to find the right balance between improving results in the short term and optimising earnings over the long term. We continued to pursue this motto, which I emphasised last year in my foreword, in 2014. We have managed to keep our investment for the future at a high level. New products, such as the Runtal Cosmopolitan radiator, were received very well by our customers and in some cases gained innovation and design awards. As far as process improvements are concerned, we implemented numerous suggestions for improvement put forward by employees as part of our Kaizen programme (which goes by the name of Zmile). In addition, five companies were migrated to the Group-wide ERP platform. Investments in tangible fixed assets again exceeded the corresponding amortisation. One of the main focuses was the construction of a training and office building in France, which will be commissioned in 2015.

Changes in the Group Executive Committee

On 1 November 2014, upon turning 60, I handed over the chairmanship of the Group Executive Committee to Dominik Berchtold, who has been diligently familiarising himself with his new responsibilities for the last two years. As previously announced, I will continue to work full time as Chairman of the Board of Directors for Zehnder Group.

For the time being, I will continue to manage our activities in China and North America, and will maintain my contact with the business units and customers, whilst supporting my successor.

This succession, which was planned some time ago, coincided with the expansion of the Group Executive Committee. Tomasz Juda, who has headed up the production company in Poland since 2000, took charge of the radiators competence center, while Olaf Schulte, who has been with Zehnder Group since 2000, most recently as head of the production company in the Netherlands, was given responsibility for the ventilation systems competence center.

Thank you

As I stated at the start, the 2014 business year was a challenging one for us. In addition to day-to-day tasks, our employees worked on numerous large projects. On behalf of the Board of Directors, I would like to thank all our employees for their hard work and great commitment.

I would also like to offer my thanks to our customers for the trust they place in our products and services. Their satisfaction, which we wish to continuously improve, is our benchmark. Finally, I would like to thank our shareholders for their continued loyalty and trust in us in 2014.



Hans-Peter Zehnder
Chairman of the Board of Directors

Zehnder Group

In brief

Zehnder Group is a listed international group with strong family ties; its headquarters are in Switzerland.

↑ 1923



↑ 1930



↑ 1980



↑ 2001



1895 Jakob Zehnder founded a mechanical workshop in Gränichen, Switzerland.

1923 The legendary 'Zehnderli', Zehnder's light motorcycle, set out to conquer Switzerland.

1930 Production of the first steel radiators.

1953 A first step abroad, to Germany.

1959 Gebrüder Zehnder became a limited company. Management was now in the hands of the third generation.

1967 Further expansion abroad, this time to France. Production of the first single-column radiator.

1980 Launch of the towel radiator, a revolutionary innovation.

1986 Successful IPO on Zurich stock exchange.

1988 Hans-Peter Zehnder (fourth generation) took over operational management. Runtal, a major competitor, was acquired, which eased access to new markets in Europe and the USA.

1994 Takeover of Acova, the French market leader in the special radiator sector.

2001 Zehnder moved into the comfort ventilation business.

2002 Takeover of StorkAir, a Dutch ventilation company.

2006 Strengthened market position in the USA and China: Hydro-Air Components (Buffalo/USA) taken over and a third company established in China (Shanghai).

2007 Acquisition of a Swedish company, Freshman AB (air cleaning technology), and the British Bisque Group (radiators).

2008 Takeover of Greenwood (ventilation products) in the UK and a Swiss company, Cesavent (ventilation components). Divestment of Faral in Italy. Start of the strategic initiative energiZe (organization, management, logistics, research and development, marketing).

2010 Acquisition of a Chinese ventilation company, Shanghai Nather Air Tech Co. Ltd.

2011 Takeover of Italian cooling specialist Nest Italia S.r.l.

2012 Complete takeover of the Turkish company Sanpan Isıtma Sistemleri Sanayi ve Ticaret Ltd (Sanpan).

2014 On 1 November Hans-Peter Zehnder hands over the operational management to his successor Dominik Berchtold.

Strategy

In the interests of all stakeholders, Zehnder Group strives to achieve sustainable and profitable growth. The focus is on organic growth, supplemented by acquisitions in line with corporate strategy and by suitable cooperation agreements.

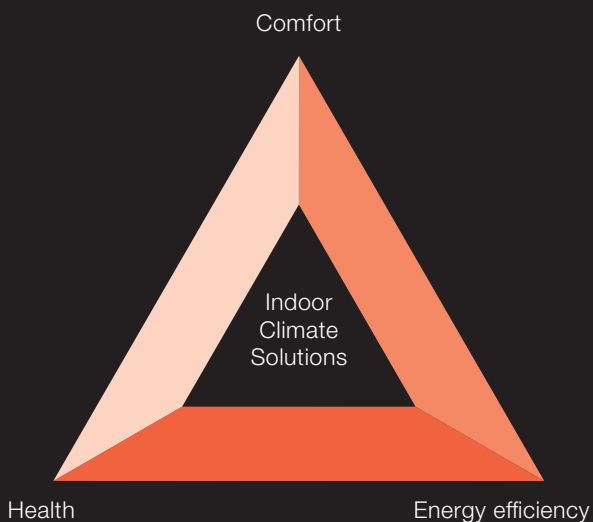
In the radiator sector we focus on higher-end market niches for steel radiators, and in the ventilation segment on energy-efficient systems. Zehnder Group brands stand for innovation, design and reliability. In the final analysis, the strategy is designed to make Zehnder a comprehensive systems supplier, capable of offering customers intelligent all-in packages for heating, cooling, ventilation and clean air to provide a healthy and comfortable indoor climate.

Market position

Zehnder Group's objective is to be a leader in all its target markets. In the radiator business Zehnder has for many years been the market leader in numerous countries. In the ventilation sector, too, the company now has a leading market position in many European countries such as Belgium, Germany, Italy, the Netherlands, Austria, and Switzerland.

Mission Statement

We want to be the most attractive provider of energy-efficient, healthy and comfortable indoor climate solutions.



Zehnder Group Highlights 2014

Headquarters, Gränichen, Switzerland

Visit from Masaaki Imai, founder of the Kaizen Institute

Since 2011, Zehnder Group has been using the Kaizen management system to continually improve its business processes. Zmile, as the programme is called at Zehnder, incorporates the Kaizen process into Zehnder's corporate culture. The objective is to further improve that which is already good by means of small, daily steps and with the minimum of expense. In October 2014, the Zehnder headquarters in Switzerland were visited by Masaaki Imai, who is over 80 years of age. The founder of the Kaizen Institute, which further refines the method and supports its implementation, is a pioneer of the Kaizen philosophy. Mr Imai praised what had been achieved so far at Zehnder and gave suggestions for new objectives, in line with the principle of continuous improvement epitomized by his method.



Sea View City, Penglai, China

Zehnder ventilation systems as a selling point

The major construction project "Sea View City", which covers an area of 120,000 m² in the eastern Chinese city of Penglai, lives up to its name: a number of the approximately 1,000 newly built apartments have views across the Gulf of Bohai. But even here, on the shores of the Yellow Sea, air pollution is increasing. The project therefore includes ventilation systems with Zehnder fine dust filters. A total of 1,050 ventilation systems with enthalpy heat exchangers for humidity recovery and compatible air distribution systems are being installed. Two thirds of

these systems, which were developed and produced in China for the Chinese market, will be installed during this reporting year, the remainder in 2015. Apartments in Sea View City are selling better than in other locations, in part thanks to the Zehnder ventilation systems. The developer therefore intends to install Zehnder ventilation systems in its next project too.



2014 Winter Olympics, Sochi, Russia

Zehnder radiant ceiling panels keep Olympic champions warm

Thanks to its competence in planning and decades of production experience, Zehnder is able to fulfil extraordinary customer requests. At the 2014 Winter Olympics in the Russian city of Sochi, a successful example was showcased in numerous television broadcasts: the open hall in which the medal ceremony was held was covered by Zehnder ZIP radiant ceiling panels to keep the athletes warm during the presentation ceremony. As is often the case with tailor-made solutions, it took great commitment from all those involved to meet the exacting requirements and tight schedule. We were well rewarded for our efforts



in the form of the pictures of beaming Olympic champions under the ZIP radiant ceiling panels, which were seen around the world.

Student residence, Holyrood, Edinburgh, Great Britain

More than 1,400 Zehnder Nova radiators installed

The Holyrood student residence in the center of Edinburgh houses 1,000 students. In 2014, it was decided to construct a further 250-bed unit. In total, more than 1,400 Zehnder Nova radiators will be installed by mid 2015. The decisive factors were the extensive collaboration with the project planners and the high product quality for which the Zehnder brand is renowned. In addition, the robust design suited the environment of a student residence, while the flexibility with regard to connection options aided installation.

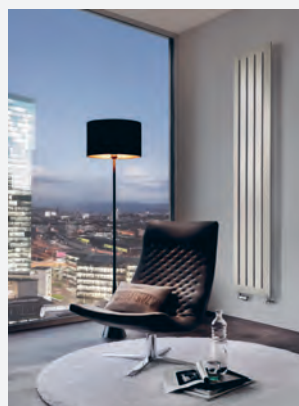


iF product design award 2014

Coveted recognition for Runtal Cosmopolitan

For over 60 years the German Industrie Forum has awarded prizes to products that are distinguished by their excellent design. In 2014, the best products and concepts out of more than 3,300 entries received the iF product design award. The coveted prize is awarded on the basis of design, ergonomics and functionality, environmental friendliness, product safety, innovative value, materials and execution. Zehnder is therefore justifiably proud that this prize was awarded to the Runtal Cosmopolitan designer radiator. From the renowned Milan design studio King & Miranda, its distinctive frame and shape-enhancing

lines, sophisticated colours, four basic variations and enormous range of sizes allow the maximum possible creative flexibility. Runtal is becoming the premium brand for radiators.



50 years of Acova

Synonymous with designer radiators in France

Acova signifies the quintessential radiator. And no wonder, given that the brand launched France's first designer radiator 50 years ago and was the first provider to offer a free choice of colours. Acova popularized the heated towel radiator in France and is therefore synonymous with beautiful bathroom radiators. To mark its 50th anniversary, customers benefited from special offers and advertisements were posted in all major French railway stations. Acova also celebrated a second anniversary with Zehnder, as it is exactly 20 years since the brand became part of the Zehnder Group.



Once upon a time there was... and still is to this day.

A true fairy tale about the conservation of a historical site, due in part to a successful climate

Once upon a time there was a splendid castle. It was built of bricks as red as the fire in which they had been baked, and was almost as old as the order of knights who built it. In the course of its lively history, Malbork Castle has undergone numerous changes. But today the castle is as splendid as ever and even houses a museum with an unrivalled multitude of medieval artworks.





Mariusz Winnicki, curator, Malbork Castle, Poland

At a time when many still believed that the earth was flat, the city of Malbork was the capital of a religious state ruled by monks. The political and religious head of this country was the Grand Master. And it was the mighty Order of the Teutonic Knights that constructed the castle, which it dedicated to the Virgin Mary. Its veneration was such that the castle alone was insufficient – it also built an entire complex consisting of three main groups of buildings. The centerpiece was the High Castle, which housed a monastery and a main church. In the middle of the 15th century, the Teutonic Knights were defeated in the Battle of Grunwald, and Poland took control of the beautiful castle and its magnificent estates. For the next 300 years, Malbork Castle was the residence of Polish monarchs. From that time onwards, the king resided here whenever his travels took him to the north of the country. And the king travelled often... In the final phase of the Second World War, Malbork Castle was ultimately completely destroyed. The terrible skirmish lasted seven weeks, by the end of which the castle had become a sad ruin, a black hole that spoke of the horrors of war. The reconstruction of the castle began with the clean-up work in 1945, but the actual scientifically based conservation work only began in 1961 and was undertaken in various phases that continue to this day.



Malbork Castle on the River Nogat

Preserving a location of as great historical interest as Malbork Castle requires care and expertise, as the decisions taken affect future generations. It involves not only maintaining the buildings in a good state of repair, but also the objects they contain, in this case highly important artworks. As it gets extremely cold in the large chambers of the castle museum in the winter, and visitors are unlikely to appreciate the art if they're freezing, a heating solution was required for the castle. The decision was made to opt for two high-performance, fully electrical and optically unobtrusive products of different sizes. The somewhat nostalgically themed Zehnder Charleston harmonizes with the architecture of the historical museum, while the modern parts of the building, such as the visitors' center, are complemented by the flat Zehnder Roda Plin radiators. An optimum indoor climate is an important aspect of maintaining historical buildings – and a major challenge, since all the different requirements need to be brought together. Zehnder Group's compatible products achieved this superbly.

The efforts to restore the castle were rewarded in 1997 when it was designated a UNESCO World Heritage Site, an accolade for all those involved in the project. Every year, half a million people visit Malbork Castle to marvel at its grandeur. It is truly a treasure of Gothic architecture and an important part of European history that is worth preserving.



The Summer Refectory in Malbork Castle



Zehnder Charleston



Zehnder Roda Plin

Zehnder Charleston and Zehnder Roda



The Zehnder Charleston is a classic of design from the 1930s. It fits in perfectly with the architecture of the historic building that houses the museum in Malbork Castle. The flat Zehnder Roda needs very little space. It is the ideal solution in modern parts of buildings. Both radiators offer high thermal output, enabling larger rooms to be heated.

Group Executive Committee Report

Improving results in a challenging environment

Group-wide sales in 2014 were slightly up on the previous-year's figure (2013: EUR 522.4 million) at EUR 525.1 million, despite an environment that remains challenging. The operating result increased significantly. EBIT excluding real estate income rose by 41 % to EUR 32.7 million year-on-year. Net income improved by 43 % to EUR 26.0 million.

New construction fell in Zehnder's European markets and the renovation market stagnated. At the same time, the construction of new residential property in China declined significantly, while the residential property sector in North America saw a recovery in construction activity. Overall, Zehnder Group was able to strengthen its market position.

Operating profit rose faster than expected due to targeted cost reductions; an advantageous product mix and productivity gains. The EBIT margin, however, remained at the previous-year's level of 6.2 %, because the 2013's EBIT included a positive one-off effect of EUR 9.2 million generated through the sale of a building in China. Net income increased by over 40 % to EUR 26.0 million due to currency gains and a lower tax rate.

Zmile making qualitative and quantitative progress

Zehnder successfully continued the Zmile initiative for continual process optimization in production. Zmile incorporates Kaizen management methods into the Zehnder philosophy. Simplifying and optimizing production processes allowing time, materials and space to be saved and quality to be increased. Zmile encourages all production employees to actively participate. Around 6,000 improvement suggestions were submitted in 2014. Accepted ideas are generally implemented rapidly and in an unbureaucratic manner. For instance, the facility in Turkey was able to reduce the processing time for a standard radiator by almost half. A structured exchange of examples of best practice between the Zehnder Group companies also ensures that all the production locations benefit from good suggestions. Zmile not only enables cost savings, but also has a positive influence on employee satisfaction and leads to a reduction in the number of occupational accidents.

In 2015, the programme is being expanded to sales and administration, where there is also potential for increases in efficiency and cost reductions.

→ **Zmile helps to optimise processes and leads to improving results.**

Further cost savings were achieved thanks to a cost-reduction programme launched in 2013.

Higher margins improve profitability

Optimizations of the pricing structure and slight reductions in commodity prices for steel also contributed to the improved margins. For instance, value analysis allowed the production costs of ventilation components to be further reduced.

Prerequisites for further efficiency increases in place

In several markets the sales structures were rationalised; sales companies were merged; the ranges streamlined; and brands simplified in the reporting year. In each market in Europe there is now only one sales organization for radiators and ventilation systems under a unified management.

Furthermore, the coverage of the SAP software solution was further extended. In 2014, the new IT platform was successfully rolled out to Sales in Switzerland, the UK, Belgium and certain company divisions in the Netherlands, and also to Production in Lahr, Germany. Since January 2015, the sales organization in France has also been integrated into the processes of the new IT solution.

SAP is an important working tool to simplify and harmonize processes across countries, from development to purchasing to billing the delivered products and services. The harmonized processes allow complexity to be reduced and efficiency and transparency to be increased.

In parallel, Zehnder set up a digitized product information database (PIM) that allows employees and customers

to access images, installation instructions and other product-specific information and documents online.

Further development of the organization

The Operations Europe area was split into two competence centers for radiators/radiant ceiling panels and ventilation systems. The competence centers ensure the optimum production of the product range and, together with the sales organization, direct the innovation process.

Tomasz Juda, who has headed up the production company in Poland since 2000, took charge of the radiators and radiant ceiling panels competence center, while Olaf Schulte, who has been with Zehnder Group since 2000, most recently as head of the production company in the Netherlands, was given responsibility for the ventilation systems competence center. Both were also made members of the Group Executive Committee.

→ **The new competence centers are playing a decisive role in the innovation process.**

The transfer of operational management responsibility from Hans-Peter Zehnder to Dominik Berchtold took place as planned on 1 November 2014. Dominik Berchtold has been with Zehnder Group since 2006 and has gained an intimate knowledge of the company and markets through the functions he has exercised. Hans-Peter Zehnder will continue in his role as Zehnder Group's full time Chairman of the Board of Directors.

Strong balance sheet – solid foundations

Zehnder Group has a very high equity capital base. The company's financial situation remains robust and the company has for many years had considerable net liquidity, while cash flow increased compared with 2013.

The largest investment in tangible fixed assets was the construction of the new training and office building in France. Its opening in 2015 will allow Zehnder Group to optimally train and pass on its competence regarding indoor climates to customers and employees.

The exploitation of tax loss carryforwards and the geographical distribution of the Group result led to a significant reduction in tax expenses in the year under review.

Successful relocation in China

At the end of 2013, Zehnder commissioned the new development and production plant in China. A purchase agreement was concluded for the old factory site, which was no longer needed for production. The proceeds from the sale of the building and the land usage rights amount to CNY 310 million (approx. EUR 38 million). By the end of 2014, Zehnder Group had received payments amounting to EUR 11 million. The transaction is expected to be completed in 2015, following the transfer of benefits, risks and economic rights to the purchaser.

Innovation in products and services

Zehnder Group continued to invest in new products and services in 2014. Among the products successfully introduced were the award-winning designer radiator Runtal Cosmopolitan and the Zehnder ComfoAir XL ventilation unit for apartment buildings and commercial buildings. The latter is distinguished by its excellent technical performance and is certified by the Passive House Institute. Other innovations include the highly efficient muffler Zehnder ComfoSilence, which is used in air distribution systems.

Zehnder presented these and other products at various trade fairs in countries including Italy, Germany and Great Britain. The focus is on applications for energy-efficient construction. The Zehnder ventilation systems with heat recovery have attracted particular interest in this regard. Furthermore, Zehnder planners and architects

demonstrate how radiators have faster reaction times in energy-efficient houses and therefore offer an advantageous alternative to underfloor heating.

Zehnder is also pursuing this topic with training opportunities for its main target groups, installers, planners and architects. Zehnder continuously improves training programmes.

Clean Air Solutions

Zehnder Clean Air Solutions ensure clean air in buildings with a particular dust particle problem. Air filtration systems allow logistics and production facilities to be kept dust free. The key focus is providing customers with excellent service. The segment was able to continue its growth in 2014 also expanding to North America.

Overview of the most important markets

Great Britain, the Belgian, Polish and North American markets developed positively. France generated sales on a par with 2013. Germany, Switzerland, the Netherlands, Italy and China were unable to maintain their previous year's sales.

The reticence of the public sector to engage in construction projects was clearly felt in all markets.

France

The economic environment in France remained challenging. New construction witnessed a decline of 15 to 20 % in 2014, while the renovations market remained unchanged. The radiator and radiant ceiling panel business was stable. These systems are increasingly being installed in modern office buildings as an energy-friendly alternative to air-conditioning systems. In the ventilation business, Zehnder is exploiting the high-value market in energy recovery systems. The decline in new construction meant that sales declined slightly.

The IT solution SAP was introduced in sales, logistics and administration in January 2015 and will be rolled out in Production at a later date.

Zehnder is building a company headquarters for Zehnder Group France south of Paris. The building will serve as a reference point and, in addition to the office complex, whose building services will also fulfil an exemplary role with their comfortable, healthy and energy-efficient indoor climate, will include a training center where customers (and in particular installers) can be trained. The building is planned to open in 2015.

In France, the brand Acova is synonymous with designer radiators for the bathroom. Acova celebrated its 50th anniversary with a variety of marketing activities in 2014. Acova celebrated its 20th anniversary as part of the Zehnder Group.

Germany and Austria

The economic environment in Germany also proved to be very challenging and Zehnder Group was unable to meet its targets. Despite this, the Group managed to increase its market share.

The radiator business saw a slight drop in sales, but remains the biggest revenue generator. Sales of radiant ceiling panels, typically a project-based business, also saw a decline. The radiant ceiling panels business is to be further expanded in the coming years.

Market share in the ventilation business increased further and the compact Zehnder ComfoAir 180 comfort ventilation system achieved good growth rates.

In October 2014, sales of Paul ventilation systems in Germany were integrated into Zehnder Germany's sales structures.

Following the switchover of the sales department in Germany to SAP software in 2013, a successful rollout in the production in Lahr was achieved 2014.

→ Zehnder plans to further expand the radiant ceiling panels business in various markets.

Switzerland

In Switzerland, Zehnder was unable to match the previous year's sales of radiators or ventilation systems. Sales of the compact Zehnder ComfoAir SL 330 comfort ventilation system, which was developed especially for Switzerland, performed well.

The sales structures in the Swiss market were standardised and simplified in 2014. To this end, two subsidiaries were merged and the market divided into three geographical regions. The SAP IT platform was successfully introduced on 1 January 2014.

Great Britain and Ireland

The economic environment in the British Isles was significantly better than on the continent. Against a background of strong construction activity, Zehnder increased its sales of radiators and ventilation systems, with only the radiant ceiling panel business failing to match the 2013 level.

SAP was commissioned on 1 July, establishing the basis for further efficiency increases. The various sales organizations were merged over the course of the year under review.

The Netherlands

The economic environment remained very bleak. Construction again declined markedly, as a result of which it was not possible to match 2013's sales. The Group used this period of economic weakness to consolidate the

brand structure. On 1 July, the first tranche of sales was switched to the SAP platform.

Italy

The Italian economy remains very weak, with a low level of construction activity. For Zehnder Italy, 2014 was a year of consolidation: three sales companies were merged and streamlined at the end of 2013, and the SAP platform was introduced. In addition, the project portfolio was adjusted. Overall, sales fell in comparison with 2013. The ventilation business continued to grow in a shrinking market, Zehnder also managed to increase its market share in the radiator market.

Belgium

In Belgium, Zehnder achieved growth in ventilation systems, but was unable to match the previous year's sales of radiators. As part of the streamlining of brands and the product portfolio, the Acova brand was discontinued in Belgium and integrated into the Zehnder brand, which has been active in the country for many years. The commissioning of SAP in July was successful.

Spain

The Spanish market has continually contracted in recent years and year-on-year sales again declined slightly in the year under review. However, the low point now seems to have been reached. The most important revenue generator continued to be radiators. The ventilation business is being further developed and expanded. Zehnder has a leading market position in the emerging comfort ventilation market.

Eastern Europe and Turkey

Zehnder's intensive development of the Eastern European market in recent years has produced highly variable results. In Russia, the entire market shrank against a background of a difficult market environment overall, although Zehnder was able to maintain its market share,

despite its lower earnings. In Ukraine, further market expansion was halted due to the uncertain political situation. In contrast, sales developed very well in Poland, with growth in all areas, and the recent year's investments in the Czech Republic are also paying off. Overall though, the Eastern European markets are still of minor importance to Zehnder.

→ Sales in Poland have developed very well.

At the Winter Olympics in the Russian city of Sochi, Zehnder stood in the spotlight: The made-to-measure Zehnder ZIP radiant ceiling panels were used to produce a comfortable climate in the open hall for the awards ceremony.

Turkey is an important production location for the export of radiators. Capacity utilization at the existing plant is very good. In addition, the company is increasingly tapping into Turkey as a sales market. Zehnder will continue to invest in Turkey to further develop this attractive market.

China

Following the imposition of restrictions on credit by the state, growth in the real estate market collapsed, accompanied by significant falls in real estate prices. On the one hand, these regulatory measures had the desired effect of countering the overheating in the real estate market, but on the other, they also had a very negative effect on construction, which in turn considerably curbed radiator sales.

Zehnder was, however, able to increase its sales of ventilation systems. One of the reasons for this was the heavily polluted air in many of China's urban centers. Overall, the growth in the ventilation business did not allow Zehnder to compensate for the decline in sales of radiators.

The subsidiaries in China are increasingly developing and selling products for the local market using Chinese specialists. This is done by using Zehnder technologies to meet local customer needs.

North America

North America's private construction sector flourished in 2014, which was beneficial for Zehnder. Both the business in radiators, which are manufactured in North America, and ventilation systems, which are mainly imported from Europe, won market share. Overall, sales were up.

Outlook

Zehnder Group expects that conditions in the construction sector will remain challenging in 2015. The aim is to gain additional market share in various markets. The strong Swiss franc will have a negative impact on the 2015 results. Process and cost-optimization measures will be continued.

The expectations expressed on pp. 2–3 and 12–16 are based on assumptions. Should these assumptions later prove to have been incorrect, this would have an impact on these expectations.



Ronny Bergström, real estate manager , Martin & Servera, Stockholm SE

A clean organization



The Swedish catering wholesaler Martin & Servera knows a thing or two about keeping things dust-free.



Zehnder CleanAir 12 on the ceiling of the warehouse.



Vegetables are warehoused at a temperature of six degrees Celsius.



The range of products includes everything that a catering business needs.



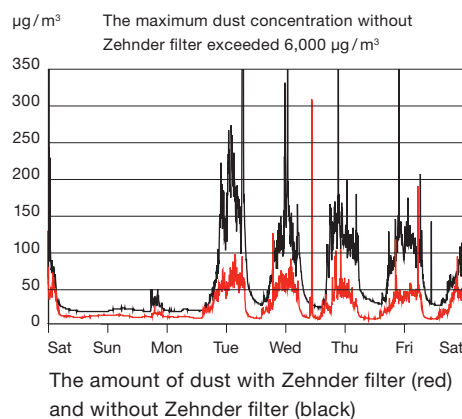
Debris from tyres also causes dust to build up.

ÅRSTA, STOCKHOLM, 10:30 a.m., meeting with Martin & Servera, a leading catering specialist in Sweden. Outside, the air is cool and damp, while inside, it is above all clean: Martin & Servera has declared war on dust. Many things cause dust: tyre debris, packaging residue, flower pollen... Since 2006, the company has been working with Zehnder Group on the issue of clean air and since then, the volume of dust has been reduced significantly due to the Flimmer filters installed in the warehouses. In the main warehouse, for instance, the readings before the installation were $63 \mu\text{g}/\text{m}^3$. Following the commissioning, they had dropped to $20 \mu\text{g}/\text{m}^3$, which represents a reduction in dust of more than two-thirds. The recipe is simple: the Zehnder CleanAir 3, 6 and 12 air cleaning units draw in air with the help of ventilators, effectively capture all types of dust particles with their innovative filter system and expel cleaned air that is then redirected down to the workspace. Not only does this mean that stored goods and technical equipment are dust-free, but above all, the employees can carry out their tasks in a healthy working environment. As long as all the units' control lamps are green, everything is working well. It only takes a look at the equipment and the air seems a little fresher – the psychological aspect of these measures should not be underestimated. Goods are stored in five different temperature zones: non-food and bananas at room temperature, fruit and vegetables at 6°C , milk and meat at $2-4^\circ\text{C}$, certain types of meat at $0-2^\circ\text{C}$, and ice cream and bread at a frosty -28°C . Elaborate ice formations on the ceiling of this warehouse provide a foretaste of the Swedish winter. At $13,000\text{m}^2$, Årsta is the smallest of Martin & Servera's locations, yet it is also the administrative headquarters. The company supplies catering institutions of all kinds, from schools to hotels and exclusive restaurants. It stocks a wide range of goods: food-stuffs, kitchenware, crockery, aprons and menus. We are told that the difference is like day and night; the upper palettes used to be covered by a centimetre of dust. The dust elimination project is ongoing and, step by step, all the Martin & Servera warehouses in Sweden will be fitted with Zehnder air cleaning units. Clean air is, after all, a clear commercial advantage. Immaculate goods and a reduction in staff absences due to illness prove that reducing dust improves business perform. To make the effect even clearer for all involved, a real-time dust measuring device for stock rooms is also on the drawing board. The basis for working with Martin & Servera is an all-inclusive fixed price service agreement. The client receives a guaranteed performance from the very beginning, without initial start-up costs.

A short guide to dust

"Dust": collective term for very fine solid particles of organic or inorganic origin. Alongside its ordinary manifestation as industrial and transport-related particulate debris of all kinds, dust can also assume a dramatic aura (see: volcanic dust, mineral dust, stardust), although its most common form is as ordinary "house dust". Particles with a diameter of at least $10 \mu\text{m}$ (micrometres or thousandths of a millimetre) are called "coarse dust", while smaller variants are known as "fine dust" and are comparatively difficult to handle. The self-produced "standard

dust", on the other hand, borders on conceptual art, yet can be very useful in testing filter products.



Zehnder CleanAir 12



The Zehnder CleanAir 3, 6 and 12 clean airborne dust particles for industry, manufacturing and retail. These units are easy to install, and run quietly and smoothly. They can clean large quantities of air, and so can be used in buildings of different sizes. The air to be cleaned can be controlled in order to optimize the performance of the filter. This maximizes the benefits for the client.

With the innovative Zehnder Flimmer® technology the dust is filtered from the air on the basis of the electrostatic principle by thousands of very fine Flimmer® hairs – with very little noise. And unlike conventional systems, it does not get quickly clogged, so can be used for long periods without the need to change the filter. Zehnder Clean Air Solutions are therefore intelligent, efficient and economical.

Sustainability

Concrete objectives for the future

We have included a report about our sustainability endeavours in our annual report since 2010. In these reports we have explained how we are satisfying our stakeholder needs using examples and quantified data. We now want to take the next step forward in our development. Specific mid- and long-term objectives allow us to focus more in a structured way on the diverse challenges that our Group faces. Our eight sustainability objectives were communicated to all business units in the Zehnder Group in October 2014. They encompass themes including training and further development of employees; reduction in the energy consumption of our products and production processes; customer training and audits of our principle suppliers.

Our key mission statement to be the most attractive provider of energy efficient solutions for comfortable and healthy indoor climate remains unchanged. We interpret this as a system and product provider for both sustainable new build and renovation projects. We contribute to an agreeable room climate with products and system solutions that are technically excellent as well as being visually appealing. Continuous innovation lets us obtain impressive improvements, allowing us to reduce by approximately 90 % the energy requirements for ventilation over the last 40 years. Our endeavours in the future will be strengthened even more as market requirements are influenced by EU directives concerning building energy consumption. From 2020 all new buildings will have to meet minimal energy usage standards. We at Zehnder are prepared for this.

Internally the rollout of our new code of conduct and actions for employee health and safety improvement were priorities and naturally further development and training remain key objectives.

As had been planned and announced for a long time, I took over the operational management from Hans-Peter Zehnder on 1 November 2014. I am convinced that my

extensive experience in a range of functions and business units will allow me to continue to lead the organization in a sustainable manner. I particularly appreciate that Hans-Peter Zehnder is remaining on the board to continue to support me and ensure continuity.



Dominik Berchtold

Chairman of the Group Executive Committee, CEO

Introduction

There are significant market challenges. Worldwide sustainable building is of continuously increasing importance. In Europe in particular clear directives are defining requirements in relation to energy efficiency, health and transparency. Zehnder's systems and solutions can make a proven major contribution in satisfying these requirements. This is where we are implementing our vision and our international product awards demonstrate what we can offer for the future.

The challenge of sustainable building

The trend towards energy efficient and sustainable building has significantly changed the building industry over the last decades. Extrapolation of Swiss data demonstrates the remarkable progress. A comparison of a building in the 60's with a Minergie certified building shows an energy usage reduction of over 90 %. If all buildings in Switzerland complied with the Minergie standard 84 % of the energy used for heating, cooling and warm water could be saved. Zehnder products can make a massive contribution to building renovation. A detailed analysis of the operation of Zehnder heat recovery systems, heat pumps and geothermal energy systems produced between 2005 and 2014 shows a total energy saving of 1,200 GWh or more than 350,000 tonnes of CO₂ reduction.

Continuously adding company value

The primary focus in our daily work is to satisfy the needs of our customers and obligations towards colleagues and society. The whole Group Management together with their teams concentrates on continuously adding value to the company.

International awards for design quality, functionality and innovation

Our international and national brands stand for innovation, design and reliability. The sustainable values provided to our customers and our ethical practices are

acknowledged regularly and gain us awards. For example in March 2014 the Runtal radiator Cosmopolitan, designed by the renowned duo Perry King und Santiago Miranda, won the iF product design award for design quality, innovation and functionality. This award is internationally recognised as an indicator of the highest standard of creative quality and workmanship. In May both the Zehnder ComfoAir XL and PAUL CLIMOS F 200 won the Plus X Award for best products of the year for quality, functionality and ecology in their respective product categories. Our Bisque brand in Great Britain was for the third year in succession voted to be one of the country's CoolBrands. CoolBrands is an independent survey of customers, experts and celebrities and Bisque won in the well-known lifestyle brands category.

Employees

Zehnder Group's thinking is long-term and sustainable. A healthy motivating working environment is the only way to achieve top performance in every area. We therefore want to recruit the best talent and at the same time promote from within and achieve mutual commitment.

Employee overview

At the end of the reporting year Zehnder Group employed 3,185 globally (2013: 3,283). Of these 233 were employed on a temporary basis (2013: 273) and 33 as trainees (2013: 33). The regional distribution was 2,547 in Europe (2013: 2,558), 233 in North America (2013: 252) and 414 in China (2013: 473).

Employees by function in full-time employment



- Production direct: 1,246
- Production indirect: 332
- Sales and marketing: 862
- Logistics: 193
- Research and development: 135
- Administration and IT: 418
- Total employees: 3,185

As a whole the female percentage was 21 % (2013: 20); in management 13 % (2013: 11). Including retirement the employee turnover rate was 12 % (2013: 11). The turnover rate has been monitored since 2013 and necessary actions discussed and implemented.

Code of Conduct integrated in employee contracts

The code of conduct introduced in 2006 was updated and revised in 2014. Our employee conduct should follow our values and principles as well as up to date best practices. Clauses on corruption and gifts; confidentiality and data protection; fairness; and respect and competition were revised. The new code of conduct has not only been revised with updated content, but is now part of every employee contract in the whole of the Group, including indirect members such as agents and distributors. The code of conduct has been translated into the majority of the local languages used within the Zehnder Group and an e-learning module is planned.

Global subjects, taught locally

The Zehnder Group Academy (e-learning) enjoyed great popularity. Very valuable experience could be obtained with a range of modules, both for the induction of new

employees and the on-going technical education of senior management.

→ Zehnder Group's objective is that every employee should have a minimum of one day's development training per year.

Technical and sales modules were successfully rolled out on a group-wide basis in 2014. In addition to the initial languages of English, German and French, 6 additional languages are now available so that our important objective of successful completion of e-learning-modules can be achieved at local level.

Health and safety

As a production company, the Zehnder Group puts a high priority on providing an above average high level of health and safety for its employees. In addition to compliance with local laws and regulations, we endeavour to ensure an exchange of best practice examples to maximise improvement potential. In accordance with our basic principles, safety measures are defined, taught, controlled and where necessary improved by local management. Regular training of employees with respect to the correct use of machinery is particularly important in preventing accidents. In total 69 accidents occurred in the reporting year (2013: 81), 52 in Europe (2013: 55), 7 in North America (2013: 9) and 10 in China (2013: 17).

→ Our future objective is to reduce lost time accidents by 20 % every year.

Customers

The direct contact to the end customer is becoming increasingly important. The value innovation process introduced last year has been strongly developed and integrated into the company. It is a systematic basis to integrate customer views in the early stages of product

and service developments. Providing customers with product information was significantly enhanced in 2014.

Declaration of Performance (in accordance with EU directive 305/2011)

The new EU construction product information system came into effect in September 2013. It harmonises the standard for construction products and testing; strengthening the CE label with respect to compliance with all EU directives and introducing a Declaration of Performance (DoP). This gives detailed information about the significant characteristics of construction products i.e. fire rating, dangerous substance content, mechanical resistance and stability, maximum surface temperature and thermal characteristics. Customers will now find a DoP number on the packaging label of all Zehnder Group products. Entering this number on the special website set up for this purpose (www.pindop.com) allows the customer to download a PDF file with specific performance data for his product at any time.

Detailed information on 30,000 products

From the end of 2014 a user-friendly product catalogue has been available online, giving access to detailed information on approximately 30,000 products, which is a milestone in the relationship with our customers. This new service is based on a fully integrated product information system (PIM), which provides websites, apps and databases with relevant product information.

Training for professional and up-to-date installation

Fitters, planners, installers and service technicians at all locations can profit from specific training courses, which allow them to professionally install and service our products and systems. We have therefore been increasing the number of trained customers for a number of years. 12,299 customers were trained in 2014 (2013: 11,628).

→ It is a Zehnder Group objective to increase the number of customers trained per year to 20,000 by 2020.

Basic training will in future be offered increasingly via e-learning. Appropriate modules are being developed and initial courses are planned to take place in 2015.

Products

Zehnder offers everything for a comfortable, healthy and energy efficient room climate: heating, cooling, ventilation and clean air. Zehnder, with a comprehensive and clearly structured programme offers an ideal product for every building; whether a domestic dwelling, a public building or a commercial location. We set the standard with well thought-out system solutions for sustainable construction and future trends such as increasing hygiene standards. At the same time the Group sets itself long-term objectives:

→ By 2020 the energy consumption of our products should be reduced by 20 %.

Energy efficiency is our trademark

Our long-term success is based on the continuous development of our products. The long-term performance improvement over our product generations is spectacular. The energy consumption of our ventilation products has resulted in a total reduction of 90 % over the last 40 years.

Products such as the Zehnder comfort ventilation system ComfoAir 550 are already available in the market to achieve the highest standards of energy efficiency. Certified as a Minergie and Passive system, it offers a standard solution to simplify sustainable construction. Development is not finished, with effect from 1.1.2016 all ventilation systems must be measured according to the

EU energy label directive 2010/30/EU. Zehnder's new generation of ventilation, which is due for market launch in March 2015, will achieve the best A+ energy efficiency category and be labelled as such well in advance of the directive.

Proven hygiene in interior ventilation

There are growing market concerns about hygiene of ventilation. Zehnder has focused on hygiene in its ventilation systems and chosen system components which harmonize perfectly to eliminate hygiene concerns. In combination with the Zehnder ComfoAir system, the Zehnder ComfoFresh distribution system guarantees maximum possible hygiene. Zehnder's ventilation tubing has a patented Clinside-inner skin, with a smooth surface which prevents the build-up of dust and dirt particles and so provides healthy room ventilation. The award of the international SKZ seal of approval confirms the high quality standard of Zehnder's air distribution system. An online publicity campaign in 2014 made installers and users aware of the need for proven and sustainable hygiene and provided assistance to properly plan and install compliant systems which can be competently operated and maintained.

Solutions for a healthy and clean working environment

Dust is a constant problem during production, packaging and storage of products and in the workplace. Zehnder's Clean Air Solutions provide an economic way to avoid and reduce dust contamination. The industrial air cleaning systems from Zehnder's Clean Air Solutions protect products, people and machines from dust. Zehnder's innovative Flimmer® filter system removes dust from the air with thousands of Flimmer® hairs more quietly and with less frequent filter changes than conventional systems, improving operating hours. All solutions are bespoke, the working environment is analysed and precise measurement of dust concentration conducted on site to give a clear projection of the possible dust concentration

reduction and achievable benefit in the industrial environment. The required capacity and filtering level is specified in accordance with requirements. More and more organizations throughout Europe are being convinced of the low cost and benefits of Zehnder Clean Air Solutions. Customers benefit from an all-inclusive fixed price service contract which guarantees an agreed performance level without the need for an initial investment.

Suppliers

New supplier risk management

Co-operation with suppliers is of critical importance to the Zehnder Group. Procurement costs with approximately 2,000 suppliers are currently 55 % of our total turnover (525 million Euro in 2014). We therefore continually develop our global purchasing strategy. In 2014 the Group developed a new risk management system for suppliers which will be implemented in 2015.

Co-operation for innovation

Supplier management is not only intended to optimise the total cost of ownership and ensure high quality, in addition Zehnder expects its partners to give input for innovation and significantly contribute to new product development. Reliability is a pre-requisite for our suppliers. Steel, electronics and sheet metal are our most important purchasing categories.

Clear supplier requirements

All strategic negotiations with suppliers are conducted centrally at Group level. In addition to our general conditions of purchase covering quality, reliable deliveries, ethics, compliance with regulations and environmental standards etc. we also make specific agreements and conduct audits. To-date audits have been conducted in Switzerland, Germany, the Netherlands, France, Italy, Poland, Tunisia and Great Britain.

Minimising risks

The standard evaluation is based on a catalogue of criteria unlike the new risk management which places suppliers in a matrix mapping the likelihood of a risk occurring against the severity of its occurrence for the Zehnder Group, taking into account the geographic region of supply. Two thirds of suppliers are located in Western Europe. Each company is then able to classify its suppliers (A, B or C) taking into account important risks.

→ It is a mid-term objective to audit all class A suppliers every 3 years.

CO₂ reduction by optimising transport

Zehnder products are transported during 52 weeks of the year. In France trucks shuttle material between the northern logistics hub Saint-Quentin and construction sites for example Combours, close to Rennes, a distance of over 500 kilometres. This journey used to mean a return journey with an empty truck but this has now been avoided by getting the truck to pick up material from suppliers who are on route, thus saving both transport costs and CO₂ emissions. With just 8 key suppliers 75,000 kilometres have been saved.

Production

The Zehnder Group is very ambitious, not only does it want to develop excellent products but also to be the most attractive supplier of complete solutions for indoor climate; which are energy efficient, healthy and provide comfort. In order to achieve this mission the company has set sustainability targets not only for its products but also environmental targets for its production.

→ Within the Group energy usage by 2020 should be cut by 20 % and the percentage of renewable energy increased by the same amount.

Environmentally friendly processes from procurement to waste disposal

The Zehnder Group considers everything to reach its environmental objectives, looking at the complete life cycle of its products as well as its own production processes. An integrated approach is taken by management to combine consideration of: economic, environmental and working conditions, allowing the requirements of ISO 14001:2004 (environmental management), ISO 9001:2008 (quality management) and OHSAS 18001:2007 (health and safety management) to be satisfied. The Swiss production facility in Gränichen was able to make a significant contribution to the environment, saving 15 tonnes of liquid gas by process changes to its painting line.

Life cycle management has now become established and is used in Switzerland in the assessment of all new products, to evaluate the environmental impact of raw materials, production processes, product operation and disposal. The resulting life cycle assessments taking into account every phase are an important method in assuring that the company objectives in relation to sustainability and quality are achieved.

Solar energy instead of fossil fuel

A 400 m² solar vacuum tube collector system was installed on the roof of the Gränichen logistic warehouse in mid-2012 to reduce the in-house use of fossil fuel. Approximately 40 % of the entire energy used for heating on the site is required for the painting line and 30 to 50 % of this is now obtained from solar power, reducing energy costs for the painting of radiators by over 30 %.

Additional environmental impact reductions

The success of Zehnder Group's environmental efforts is evident in improvements in a number of areas.

Electricity and oil consumption have been significantly reduced since 2011 and water usage reduced, with this

trend continuing. The lowest water consumption in 5 years was recorded in 2014 with less than 248,000 m³.

Less waste every year

Zehnder has worked with its partners to significantly reduce waste; introducing returnable packaging and systematical recycling. An example is the collapsible packaging used to transport fans between our supplier and Zehnder's site in Zwolle (NL), where Comfosystems are produced. A Kanban system uses the smallest possible packaging quantity to match deliveries with actual usage. The plastic containers are collapsed and collected for pick-up by the supplier. Previously the supplier used metal crates with parts packaged in cardboard. The new collapsible packaging not only reduces waste but has the additional advantage of being more robust and having a longer life. A similar system is used between Zehnder and a supplier of electrical heating elements.

The French factory in Vaux Andigny has also converted to returnable packaging and its employees have implemented an interesting recycling process, whereby silver is recuperated. The copper mesh used in electro-welding to produce electrical contacts has a silver coating. The mesh is collected and the precious metal separated. About 20 % of the silver, which used to be thrown away, can now be recuperated and reused in a lean value flow. Significant waste reductions have resulted, from over 7,500 tonnes in 2012 to less than 7,000 tonnes today.

Society

Zehnder's facilities make a valuable contribution to the communities in which they are located and are particularly appreciated in North America and France where they are located in less economically developed areas. Zehnder considers a good relationship with the local community, together with respectful and fair behaviour in the market and towards employees as part of its role as a responsible community player. Zehnder therefore supports local sport clubs and cultural organizations

both at the headquarter site in Gränichen and several subsidiaries.

Team spirit finds a novel use for wasteland

There has been a patch of land going to waste adjacent to the Runtal factory in North America for a number of years. An innovative group of employees grabbed the initiative this year and got to work. Every lunchtime there was rigorous planting, weeding and cultivating until a successful vegetable garden was established. The hard working gardeners were delighted at harvest time to be rewarded with maize, courgettes, beans, potatoes, tomatoes and aubergines. The abundance of some crops meant there was even enough to be given to colleagues. The fantastic team spirit making sustainable use of a wasted resource has been rewarded and the project is set to continue with plans for expansion.

Giving youth a chance

We want to expand expertise in areas which are important for our future. In Switzerland there will be a focus on IT and logistics.

→ The Zehnder Group has an objective by 2020 to increase the number of apprentices and trainees by 20 %.

Concerning this report

The Zehnder Group not only want to continuously improve in relation to sustainability, but also be transparent in its reporting. Our report has therefore been compiled for the fifth time in succession in accordance with GRI (Global Reporting Initiative) standards. The required index is available on the internet. GRI has verified that the report was compiled in accordance with the requirements of the G3 Application Level C. Our report has been structured in accordance with the requirements of our key stakeholders: employees, customers, environment (production & products), suppliers and society.

Dialog with these stakeholders is a pre-requisite to sustainably satisfy the challenges of today's market.

Environmental Performance of Zehnder Group^[1]

		Unit	2014	2013 ^[6]
Energy	Total energy consumption	MWh	87,109	110,112
	Energy consumption per employee (FTE) ^[2]	MWh	27.4	33.5
	<i>Energy, direct</i>			
	Natural gas	MWh	33,636	33,589
	Coal and propane	MWh	3,670	22,745
	Heating oil	MWh	1,595	3,617
	<i>Energy, indirect</i>			
	Electricity	MWh	45,406	47,121
	District heating	MWh	2,803	3,040
Water	Total water consumption	m ³	247,977	261,501
	Water consumption per employee (FTE) ^[2]	m ³	77.9	79.7
	Drinking water for sanitary installations	m ³	31,294	31,829
	Industrial water for production processes	m ³	216,683	229,672
Waste	Total waste	t	6,966	6,755
	Waste per employee (FTE) ^[2]	t	2.2	2.1
	External recycling ^[3]	t	5,314	5,280
	Non-hazardous and non-recyclable waste ^[4]	t	1,256	962
	Hazardous waste ^[5]	t	396	513

[1] Zehnder Group's environmental monitoring is continually being enhanced; individual data points are not yet available for all Group companies; further information is available in the GRI web index

[2] FTE (Full Time Equivalent) = full-time jobs

[3] Steel, aluminium, copper, plastics, cardboard

[4] Incineration or landfill

[5] E-waste, chemical waste, solvents, filter dust, filter mats, powder

[6] as a result of improved data quality, the 2013 figures for drinking water for sanitary installations, industrial water for production processes and external recycling were adjusted

Good climate — a question of hospitality

Even the ancient Romans played a role in the modernization of the five-star hotel Relais San Lorenzo in the northern Italian city of Bergamo. And the Romans were a people known to be experts in hospitality.





Alessandro Nani, engineer, Bergamo, Italy

Alessandro Nani, freelance engineer and the responsible project manager, reports.

The Relais San Lorenzo project involved renovating and extending an existing hotel in an architecturally important location in the midst of Bergamo's historic center. For us engineers, the challenge was to ensure optimum hygrothermic comfort for the hotel's guests, while taking account of the building's energy efficiency, the quality requirements of a five-star hotel and the restraints imposed by its location in a historical area, such as the fact that five stories below the earth, excavations of Roman ruins were taking place.

Modernizing an existing building always requires special solutions to optimize the process and avoid difficulties that do not occur in new buildings. The existence of archaeological artefacts from the Roman Empire certainly magnified these aspects of the modernization of Relais San Lorenzo. It limited architectural freedom and meant that the ventilation concept had to be even more carefully planned than usual. As soon as the architectural plans had been completed, the thermal energy requirements were calculated. As sustainability and environmental friendliness were primary requirements, it was necessary to reduce the hotel's current energy requirements. The primary air inlets and air filtration had to be renewed throughout the building.



Exterior view of Relais San Lorenzo



The Zehnder ComfoAir units are discreetly hidden.

Following an analysis, small air conditioning units were installed – we chose the Zehnder ComfoAir 550 comfort ventilation system, largely due to its reliability, low noise levels and high efficiency. Given the historic location of the hotel, large or loud units would not have been acceptable.

I primarily see my job as ensuring comfort in a variety of environments by creating a pleasant climate, regardless of the internal or external circumstances. Although “comfort” is a highly subjective feeling, every engineer and spacial expert must heed certain basic rules. For instance, indoor air temperature and humidity should always remain within a certain optimum range. Hotels have certain additional requirements, as without doubt, the primary goal of a luxury resort such as Relais San Lorenzo is the well-being of its guests. Their needs must be promptly met, including technical devices that respond quickly and, for instance, adjust the thermostat settings with the minimum of delay. Even details such as being able to adjust the speed of air circulation must be considered, in particular because excessive cooling may cause discomfort.

Restoring a historic building is always a challenge, although finding a harmonious way to combine old and new is an enjoyable task. And when it is as successful as Relais San Lorenzo, it makes it a pleasure to welcome guests.



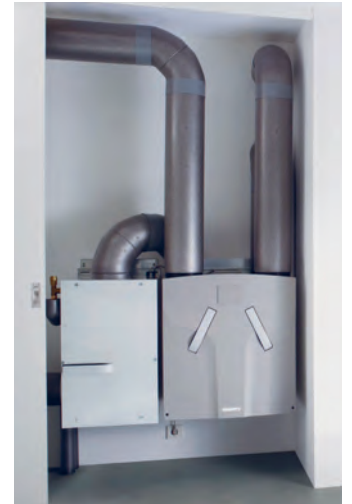
View of the bathroom in the luxury suite of Relais San Lorenzo

From hypocaust to ComfoAir

The ancient Romans are famous for many things: their art and way of life, buildings, bathing temples – and sophisticated heating systems. The “hypocaust” (from the Greek hypokaíein, “heat from below”) was a construction of furnaces, a heated hollow chamber and a system of flues to remove the smoke. The antiquity hot-air heating system used radiant heat of floors and walls to initially heat the bathing rooms of spas, but was later also used in private Roman houses. However, it took several hours to warm the baths sufficiently and consumed a great deal of energy.

Seemingly whole forests were lost to supply sufficient fuel. Nowadays, such wastefulness is luckily no longer necessary when it comes to creating a comfortable climate. The Zehnder ComfoAir 550 comfort ventilation system, which is being successfully deployed at Relais San Lorenzo, was specially developed for use in upmarket residential and commercial buildings. It combines the highest levels of comfort with ease of operation, optimum integration into building services and high energy efficiency. It has been awarded the Minergie® module certificate. Zehnder ComfoAir 550 conducts 550 m³/h of air at an external pressure of 200 Pa – an entirely modern type of comfort giving both luxurious pure air and a clean conscience.

Zehnder ComfoAir 550



The Zehnder ComfoAir 550 comfort ventilation system is the ideal product for the five-star hotel, thanks to the system's reliability, low noise level and high energy efficiency. The high-quality components are optimally harmonized, guaranteeing that the entire building services function efficiently as a seamless, low-maintenance operation.

2014

Corporate Governance

Introduction

This Corporate Governance report contains the disclosures required by the Corporate Governance Directive issued by SIX Swiss Exchange effective as at 31 December 2014 and is structured in line with the directive. It also includes disclosures required by law on the compensation and participating interests of the members of the Board and of top management.

Group structure and shareholders

The operational Group structure is presented on pages 36 to 41 of the annual report. Zehnder Group AG is the only listed company included in the consolidation matrix. All the companies included in the consolidation matrix of Zehnder Group AG are shown on pages 89 to 91 of the annual report.

For significant shareholdings please refer to the disclosure of ownership structure in the individual financial statements of Zehnder Group AG on page 97. There are no cross-shareholdings.

Capital structure

For details regarding the capital structure please refer to note 3 of the notes to the individual financial statements of Zehnder Group AG on page 97 of the annual report and to the consolidated statement of changes in equity on page 65 of the annual report. There is no authorized and no conditional capital. All changes in equity since going public in 1986 are set out under our website [1].

The share capital of Zehnder Group AG comprises 9,756,000 bearer shares listed on SIX Swiss Exchange with a nominal value of CHF 0.05 each (a total of CHF 487,800), and 9,900,000 unlisted registered shares with a nominal value of CHF 0.01 each (a total of CHF 99,000). Total share capital amounts to CHF 586,800 and the total number of shares outstanding is 19,656,000. Each share carries one vote, irrespective of its nominal value. The bearer shares have a 49,6 % share of the votes and

account for 83,1 % of the share capital, the registered shares a 50,4 % share of the votes and 16,9 % of the share capital. The dividend per registered share is one fifth of the dividend per bearer share.

For additional information on shares please refer to our website [2]. There are no profit sharing certificates. There are no limitations on the transferability of bearer shares. There are no convertible bonds outstanding.

With regard to options granted, please refer to the compensation report on page 43 ff and to point 25 of the consolidated financial statements on page 87 of the annual report.

Board of Directors

Election and period of office

The articles of association lay down that the Board of Directors is made up of at least three members elected by the general meeting of shareholders for a period of one year. Re-election is permissible.

At the general meeting of shareholders there is a separate vote on the election or re-election of each candidate.

The independent proxy has to be elected each year at the general meeting of shareholders.

Internal organization

The articles of association lay down that the chairman (Hans-Peter Zehnder) or his deputy (Thomas Benz) convenes and chairs the meeting. The Board's duties are carried out by the entire Board. For each meeting, all Board members receive relevant documentation two weeks in advance. In 2014 the Board met five times, in January, March, April, July, September (in 2013 five times: January, March, April, September, October). The meetings lasted between half a day and two days. In addition the board held two telephone conferences in May and October which lasted one and a half hours and one

hour. The members of the Group Executive Committee attended the Board meetings and participated in the telephone conferences. Representatives of the auditors or external consultants are called in to advise on individual items on the agenda. To allow the Board to acquire local information direct, a regular rhythm has been established to hold one of the Board meetings on the premises of an operating company.

The Board is supported by a compensation committee, made up of three non-executive, independent Board members. The Board appoints the members of the compensation committee and its chairman. The members of the compensation committee are: Thomas Benz, chairman; Urs Buchmann, member; Enrico Tissi, member. The compensation committee has its own regulations, approved by the Board. With regard to the members of the Group Executive Committee and the executive members of the Board it is responsible for proposing the compensation policy to the Board, for determining the various components that make up total compensation, for approving employment contracts and for defining the conditions governing early termination of contract. Moreover, it determines the fees and all other compensation for the chairman of the Board. It proposes compensation for the other Board members. Every year the compensation committee examines the compensation paid to all Group managers. In 2014 it held four meetings (2013: two meetings).

Areas of responsibility as well as information and control instruments vis-à-vis the Group Executive Committee

The allocation of the areas of responsibility between the Board and the Group Executive Committee is based on the law (Swiss Code of Obligations), on the company's articles of association and on its bye-laws. For the articles of association and for the bye-laws please refer to our website [3]. As part of regular reporting practice, the Board members receive monthly reports (income

statement, key figures, commentary) and quarterly reports (also expanded to include balance sheet and forecast). In addition, the Board members receive a quantified medium-term plan and a detailed budget analysis. In connection with this, the strategic opportunities and risks are analysed once a year and appropriate measures decided.

Board of Directors (Status 1.1.2015)

Members of the Board of Directors, other activities
and vested interests



→ f. l. t. r. Enrico Tissi, Thomas Benz, Urs Buchmann, Hans-Peter Zehnder, Riet Cadonau

Hans-Peter Zehnder
President of the Board,
first elected 1988

Swiss citizen, born 1954

- Executive member, Chairman and Delegate of the Board (since 1993).
- Studied economics (doctorate) at the University of St. Gallen, Switzerland
- 1981–1984 Gebr. Bühler AG
- Since 1985 member of the Group Executive Committee of Zehnder Group
- 1986–1988 head of the instrument division
- 1988–1991 head of the radiator division
- 1988–1992 deputy chairman of the Group Executive Committee
- 1993–31.10.2014 chairman of the Group Executive Committee
- Supervision of Zehnder's activities in China and North America a.i.
- Member of the board of directors of AZ Medien AG, Switzerland; R. Nussbaum AG, Switzerland; Lagerhäuser der Centralschweiz AG, Switzerland; and Rouge + Blanc Holding AG, Switzerland

Thomas Benz
Member of the Board, Deputy Chairman, first elected 1993
Swiss and German citizen, born 1947

- Non-executive member
- Chairman of the compensation committee
- Degree in electrical engineering from ETH (Swiss Federal Institute of Technology), Zurich
- 1972–1973 Guardian Electric, Chicago, USA
- End 1973 joined Zettler GmbH, Germany
- 1977–1996 managing partner of Zettler GmbH, Germany
- Since 1997 managing partner of CG International, Germany
- Since 1974 member of the Bavarian Metal Working and Electrical Industry e. V., Germany
- Since 3 May 2011 Deputy Chairman of the Board of Warema Renkhoff SE, Germany

- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries
- He has no significant business relations with Zehnder Group AG or with any of its subsidiaries

Urs Buchmann
Member of the Board,
first elected 2010
Swiss citizen, born 1957

- Studied law (doctorate) at the university of Bern
- Non-executive member, member of the compensation committee
- Long-term career in corporate investment banking in Asia
- Currently head of Corporate & Institutional Clients Asia Pacific in a leading international bank
- Chairman of the Board of the Sino-Swiss Partnership Fund, member of the Board of Zehnder (China) Indoor Climate Co. Ltd.
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries
- He has no significant business relations with Zehnder Group AG or with any of its subsidiaries

Riet Cadonau
Member of the Board,
first elected 2013
Swiss citizen, born 1961

- Non-executive member
- Master of Arts in economics and business administration from the University of Zurich, Switzerland
- Advanced Management Program at INSEAD, France
- 1990–2001 various management positions at IBM Switzerland, lastly as a member of the Management Board and Director of IBM Global Services
- 2001–2005 member of the Executive Board of the Ascom Group, from 2002 Deputy CEO and General Manager of the

Transport Revenue Division, which was acquired by ACS in 2005

- Until 2007 Managing Director ACS Europe + Transport Revenue
- 2007–2011 CEO Ascom Group, Switzerland
- Since 1 July 2011 CEO Kaba Group, Switzerland

Enrico Tissi
Member of the Board,
first elected 2005
Swiss citizen, born 1946

- Non-executive member
- Member of the compensation committee
- Degree in engineering from ETH (Swiss Federal Institute of Technology), Zurich
- 1972–1986 various responsibilities and positions at Rieter AG, Switzerland
- 1986–1996 delegate of the Board and CEO of Elco Looser Holding AG, Switzerland
- 1997–2004 delegate of the Board and CEO of Sika Corp., USA and a member of group management of Sika AG, Switzerland
- 2005–2007 vice chairman of Sika Corp., USA
- Member of the Board of Georg Utz Holding AG, Switzerland
- At no time was he a member of the Group Executive Committee of Zehnder Group AG or of any of its subsidiaries
- He supports Zehnder's subsidiaries in the USA in strategic and conceptual issues

Hans-Jakob Zehnder
Honorary President
Swiss citizen, born 1923

In 1993, after having spent 34 years at the head of the company he served for a total of 39 years, Hans Jakob Zehnder resigned as Chairman of the Board. In recognition of his outstanding contribution to the development of Zehnder Group, the Board of Directors appointed him Honorary President. This office carries no vote.

Group Executive Committee (Status 1.1.2015)

Members of the Group Executive Committee, other activities
and vested interests



→ f. l. t. r. Tomasz Juda, Cyril Peysson, Dominik Berchtold, Olaf Schulte, Josef Brügger

Dominik Berchtold

Chairman of the Group Executive Committee, CEO, Sales Nordic
Swiss citizen, born 1971

- Degree in business administration from the University of Freiburg i. Ue., Switzerland
- Executive master of corporate finance from the Institute of Financial Services IFZ, Zug, Switzerland
- Advanced Management Program INSEAD, Singapore
- 1996–1997 finance and marketing assistant at Exsa, Peru; Cervetur, Peru; and Linde, China
- 1997–2005 various management positions in finance and controlling at Pilatus Aircraft Ltd., Switzerland; and Transairco S.A., Switzerland
- 2005–2006 manager corporate restructuring at KPMG, Switzerland
- 2006–2008 director business development Zehnder Group
- 2008–2012 member of the Group Executive Committee of Zehnder Group
- 2013–6.2014 CEO designate, Sales & Marketing Switzerland and Nordic, Head Operations Europa a.i. (as of 11.06.2014)
- 7.2014–10.2014 CEO designate, Sales Nordic, Head Operations Europa a.i.
- Since November 2014 Chairman of the Group Executive Committee, CEO, Sales Nordic

Josef Brügger

Chief Financial Officer
Swiss citizen, born 1960

- Business diploma, Fribourg, Switzerland
- Bachelor of Science in business administration from Bern University of Applied Sciences, majoring in accounting, 1986, Berne, Switzerland
- 1979–1983 Various positions in the field of accountancy in industrial and trust companies

- 1987–1988 Controller of Group accountancy, Gebrüder Sulzer AG, Winterthur, Switzerland
- 1988–1993 CFO / Controller, Sulzer Plasma Technik, Inc., Troy, USA
- 1993–2001 Head of finance and administration (accountancy, HR, IT, logistics), Sulzer Metco AG, Wohlen, Switzerland
- 2001–2012 Head of Shared Service Center Switzerland, Zehnder Group International Ltd, Gränichen, Switzerland
- Since 2013 member of the Executive Committee of Zehnder Group (Chief Financial Officer)

Tomasz Juda

Competence Center Radiators / RHC
Polish citizen, born 1969

- Engineering degree at the Dresden University of Technology (Germany)
- Master's degree in Business Administration from the St. Gallen Business School at the Cracow University of Economics (Poland)
- Various posts at Polish companies as material testing engineer and as head of engineering and manufacturing
- 2.2000–10.2014 Managing Director of the Polish manufacturing company Zehnder Group Boleslawiec
- Since November 2014 member of the Group Executive Committee of Zehnder Group (Head Competence Center Radiators / RHC)

Cyril Peysson

Sales Europe / Middle East / Africa (EMEA)
French citizen, born 1965

- Diploma from Ecole Supérieure de Commerce et Administration, Montpellier, France
- 1990–2000 various responsibilities in exports and sales for French industrial

- companies; last position held was head of sales at De Dietrich Heiztechnik, Germany
- 2000–2005 head of Zehnder SAS, France;
- Since 2006 member of the Group Executive Committee (Sales Europe / Middle East / Africa (EMEA), April 2008 until end 2013 Sales and Marketing Western Europe, previously Sales and Marketing Radiators)

Olaf Schulte

Competence Center Comfosystems
Dutch citizen, born 1972

- Bachelor's degree in Industrial Management
- Master's degree in Information Management
- Various posts at Dutch companies
- 10.2000–6.2012 various roles at the Dutch subsidiary of the Zehnder Group
- 7.2012–10.2014 Head of the Dutch manufacturing company Zehnder Group Nederland
- Since November 2014 member of the Group Executive Committee of Zehnder Group (Head Competence Center Comfosystems)

Group functions (Status 1.1.2015)

Ian Bergman	Operational Excellence
Franz Furrer	Group IT
René Grieder	Group Controlling
Markus Max Inäbnit	Group Human Resources
Thomas Mathys	Group Finance
Herbert Oettle	Group Logistics
Jean-Marie Schmid	Group Marketing
Thomas Schumann	Group Technology / Intellectual Property

Sales Europe (Status 1.1.2015)

Erwin Crommelynck	Sales Belgium
Jiri Stekr	Sales Czech Republic
Elisabeth Bardet	Sales France
Donat Feser	Sales Germany and Austria
Tony Twohig	Sales Great Britain & Ireland (including production Lenham)
Oliver Bock	Sales International and Eastern Europe
Paolo Masetti	Sales Italy (including production Vedelago)
Erik van Heuveln	Sales Netherlands
Peter Krantz	Sales Nordic / Clean Air Solutions
Jerzy Stosiek	Sales Poland
Alexander Silin	Sales Russia
José Ramón Ferrer	Sales Spain
Alois Bachmann	Sales Switzerland
Romano Roller a.i.	Sales Turkey

Competence Center Radiators/RHC (Status 1.1.2015)

Roland Diethelm	Production Gränichen/CH, R&D Radiators
Felix Heldstab	Purchasing Radiators/Group Purchasing
Michael Himmelsbach	Radiant Heating and Cooling (RHC)
Giovanni Suma	Product Management Radiators
Thierry Baschet	Production Vaux Andigny/FR
Robert Cahill	Production Châlons-en-Champagne/FR
Piotr Kościsz	Production Boleslawiec/PL
Herbert Oettle	Production Lahr/DE
Orçun Özelmas	Production Manisa/TR

Competence Center Comfosystems (Status 1.1.2015)

Arthur Dijkstra	Product Management Comfosystems
Rene Kusters	Purchasing Comfosystems
Arie Veldhuijzen	R&D Comfosystems
Hendrik de Wilde	Production Zwolle/NL
Michael Pitsch	Paul Wärmerückgewinnung, Reinsdorf/DE

China/North America (Status 1.1.2015)

Zhangeng Guo	Sales and Production Zehnder China
Chunlin Jin, Yitao Jin	Sales and Production Nather China
Wesley Owens	Sales and Production Runtal North America
Scott A. Pallotta	Sales and Production Zehnder-Rittling North America

Disclosure of compensation

See compensation report page 43 ff.

Overall compensation is in line with that paid in comparable industrial companies headquartered in Switzerland and is intended to allow recruitment and retention of the highly qualified personnel necessary for the success of the company. There are no agreements with regard to severance compensation.

Members of the Group Executive Committee may take 20 % of their compensation in the form of bearer shares. The ZGMSP (Zehnder Group Management share plan) regulation to this effect was approved by the Board of Directors.

Notice periods for employment contracts and severance compensation

For members of the Group Executive Committee in particular, the notice period is at least six months. For persons who have been in the Group Executive Committee for more than five years the notice period is nine months, and for more than 10 years it is 12 months. There are no agreements with regard to severance compensation in connection with leaving the company or if there is a change in the majority shareholder.

Shareholders' participation

Please refer to Swiss company law and also to the Zehnder articles of association at our website [4].

Changes of control and defence measures

There are no change-of-control clauses for members of the Board of Directors or for members of the Group Executive Committee. An opting out clause is laid down in Art. 8 of the company's articles of association.

Auditors

KPMG AG, Basle, have been auditors for Zehnder Group AG since 1984. They also audit the consolidated financial

statements of Zehnder Group. The auditor in charge commenced his duties in 2012. The rotation rhythm corresponds to the legal requirement of a maximum of seven years.

The financial statements of Zehnder subsidiaries are audited by various auditing firms, including KPMG. Various auditing firms invoiced a total of EUR 781,000 for auditing individual accounts and the consolidated financial statements. EUR 536,000 of this total was paid to the KPMG group.

A total of EUR 1,127,000 was charged for taxation and legal services throughout the group. Of this, EUR 50,000 was paid to the KPMG group. In the reporting year further consulting services were purchased from the KPMG group in the amount of EUR 72,000.

KPMG AG, Basle, holds regular meetings with the chairman of the Board of Directors of Zehnder Group AG. KPMG meets with the entire Board at least once a year. At these meetings KPMG presents significant information on the financial statements of the companies audited.

Information policy

Zehnder Group communicates regularly with its shareholders, the capital market and the public. The CEO and the CFO are the designated contact persons. Shareholders receive short reports on business development and six month reports. The annual report is available in German and English in printed form and on the Internet under our website [5], which also offers an opportunity for interested parties to subscribe to news publications and to access other information. A meeting for media representatives and financial analysts is held at least once a year.

Additional information including the company calendar is set out on page 103 of this annual report.

The compensation report contains information on the compensation policy and on the content and method of determining compensation and participation programmes. It provides information about the compensation of the members of the Board of Directors (BoD) and the Group Executive Committee (GEC).

The compensation report was prepared in accordance with the Ordinance against Excessive Compensation in Listed Companies (VegüV), which entered into force on 1 January 2014, and is in line with the principles of the Swiss Code of Best Practice from *economiesuisse* and the Corporate Governance Directive issued by SIX Swiss Exchange.

1. Introduction

According to the Ordinance against Excessive Compensation in Listed Companies, the General Meeting of Shareholders must in future vote on the compensation paid to the Board of Directors and the Group Executive Committee. Accordingly, the 2014 General Meeting of Shareholders approved the new Article 14 of the Articles of Association of Zehnder Group AG, under which the General Meeting shall separately approve the total amounts each year for:

1. the total compensation of the Board of Directors pursuant to Article 30 of the Articles of Association for the period to the next General Meeting of Shareholders;
2. the maximum total compensation of the Group Executive Committee pursuant to Article 31 of the Articles of Association for the current business year.

The respective total amounts are inclusive of all contributions of the members of the Board of Directors, the Group Executive Committee and the company to the social security and occupational pension schemes.

2. Compensation policy and principles

Zehnder Group's employees are the company's greatest asset. There would be no entrepreneurial success without their full commitment and top-quality work. Consequently, the objective of the compensation policy is to recruit, motivate and retain extremely well qualified employees.

The key principles

- Rewarding sustainable performance in relation to comparable and relevant markets
- Participating in the company's success
- Transparent and fair compensation decisions

Individual fixed compensation of the Group Executive Committee

Individual fixed compensation is subject to the scope and tasks associated with a position and the experience and qualifications of a member of the Group Executive Committee. This fixed part of the compensation package is reviewed annually. Salary adjustments reflect individual performance, salary history and market salary trends.

Short-term variable compensation of the Group Executive Committee

Short-term variable compensation is intended to allow the Group Executive Committee to participate in the Group's current success.

Long-term compensation of the Group Executive Committee

Acquired shares

The Zehnder Group Management Share Plan (ZGMSP) is a long-term, global compensation programme. The Group Executive Committee may elect to draw 20 % of their fixed basic salary in the form of Zehnder Group AG bearer shares. These bearer shares are offered at a discount of 30 % on the relevant share price and are subject to a restriction period of three years. The relevant share

price is determined in accordance with the average purchase price of bearer shares acquired in the period between 1 October and 31 December.

The disclosed value corresponds to the closing price on the grant date minus 16.038 % (accounting for the three-year vesting period) and less the purchase price.

Options granted

The options plan was discontinued as of 1 January 2012. According to the regulations, the right to exercise options from the plan continues to exist until 2019.

Other benefits for members of the Group Executive Committee residing abroad

Other employee benefits for members of the Group Executive Committee residing abroad are country-specific, structured in accordance with local practice and in line with local legal requirements.

Other payments

Other payments primarily include legally required child benefit payments, the private share in a company car, and the right to use the subsidized staff restaurant.

3. Method of determining compensation, principles of compensation, inclusive participation plans, expenses and contracts with the members of the Board of Directors and Group Executive Committee

The compensation system is elaborated by Group Human Resources on behalf of and according to the specifications of the Board of Directors and submitted to the compensation committee after a review by the CEO. The committee reviews the proposed compensation system and puts forward the proposal for approval to the entire Board.

According to the company's Articles of Association, the General Meeting of Shareholders elects at least two and a maximum of four members of the Board of Directors to the compensation committee. The term of office of

the members of the compensation committee is one year and terminates upon the conclusion of the next General Meeting of Shareholders. Members are eligible for re-election.

Composition of compensation committee As at 1 January 2015

	Exec./Independent Member of the BoD	Chairman/ Member
Thomas Benz	Independent Member of the BoD	Chairman
Dr. Urs Buchmann	Independent Member of the BoD	Member
Enrico Tissi	Independent Member of the BoD	Member

The compensation committee has, in principle, the roles and responsibilities set out in Article 25 of the Articles of Association:

- the submission of proposals to the entire Board of Directors regarding the Group's compensation system;
- the submission of proposals to the entire Board of Directors regarding the determination of compensation-related objectives set by the Group Executive Committee;
- the submission of proposals to the entire Board of Directors regarding the individual maximum compensation of the Chairman and the other members of the Board of Directors;
- the submission of proposals to the entire Board of Directors regarding the individual maximum compensation of the CEO and the individual compensation of the other members of the Group Executive Committee;
- the submission of proposals to the entire Board regarding amendments to the Articles of Association in respect of the compensation system for compensation of members of the Group Executive Committee.

Responsibility levels

	Chairman of the Group Executive Committee	Compensation committee	Board of Directors	General Meeting of Shareholders
Compensation of the BoD		Submits proposals	Approves*	Approves total compensation of the BoD
Compensation of the Chairman of the GEC		Submits proposals	Approves*	
Compensation of the members of the GEC	Submits proposals	Reviews	Approves*	Approves maximum total compensation of the GEC

*Subject to final approval by the General Meeting of Shareholders

In 2014, the compensation committee held four meetings. All members attended all meetings.

The Chairman of the compensation committee reports on the activities of the committee to the Board of Directors after each session in the form of meeting minutes. For certain agenda items, the Chairman of the Board of Directors and/or the Chairman of the Group Executive Committee participate in the meetings in an advisory capacity.

The compensation committee is entitled to bring in external consultants regarding specific compensation issues.

Regular benchmarks

The compensation of the Board of Directors and the Group Executive Committee is in line with that paid in comparable multinational industrial companies headquartered in Switzerland with similar market capitalization, profitability and numbers of employees.

Principles of compensation for the members of the Board of Directors

The members of the Board of Directors receive a fixed basic fee and fixed compensation for membership of committees of the Board of Directors as well as a lump-sum expense allowance, which must be determined in each case by the entire Board of Directors at the request

of the compensation committee, subject to the total amount of compensation approved by the General Meeting of Shareholders. 50 % of the compensation paid to the members of the Board of Directors and the compensation committee is paid in cash and 50 % is paid in the form of Zehnder Group AG bearer shares. The members are obliged to draw 50 % of the compensation in bearer shares. These bearer shares are offered at a discount of 30 % on the relevant share price and are subject to a restriction period of three years.

The relevant share price is determined in accordance with the average purchase price of bearer shares acquired in the period between 1 October and 31 December.

The disclosed value corresponds to the closing price on the grant date minus 16.038 % (accounting for the three-year vesting period) and less the purchase price.

In exceptional cases, the members of the Board of Directors may be paid an additional bonus, subject to the approval of the General Meeting of Shareholders.

Compensation to Board members for advisory services to the company or for the activities in companies that are controlled directly or indirectly by the company, are permitted. This compensation is included in the total amount of compensation paid to the Board of Directors,

which must be approved by the General Meeting of Shareholders.

Principles of compensation for the members of the Group Executive Committee

The members of the Group Executive Committee receive individual fixed compensation, a lump-sum expense allowance and variable performance-based compensation. The variable performance-based compensation in any given fiscal year is paid in the following year and is based on an individual factor as well as the disclosed consolidated net annual profit. The factor reflects such aspects as the complexity of the position held, personal experience and personal success. Such variable performance-based compensation can only be earned if the consolidated net income for the year is positive. The targeted variable performance-based compensation for the Chairman of the Group Executive Committee ranges from 50 % to 100 % of the fixed basic salary. For all other members of the Group Executive Committee, it ranges from 35 % to 75 % of the fixed basic salary. There is a contractually agreed upper limit for the variable performance-based compensation of all members of the Group Executive Committee: for the Chairman of the Group Executive Committee it amounts to 100 % of the fixed basic salary, while for all other members it is 75 %.

Expenses

Expenses not covered by the lump-sum remuneration for expense allowance in accordance with the company's expenses regulations are compensated upon presentation of documentary evidence. This additional compensation for expenses actually incurred does not need to be approved by the General Meeting of Shareholders.

Contracts underlying the compensation for members of the Board of Directors and the Group Executive Committee

The mandates of the members of the Board of Directors terminate upon the conclusion of the next General Meeting of Shareholders, subject to early retirement or deselection. The employment contracts of the members of the Group Executive Committee are unlimited and incorporate a notice period of a maximum of 12 months.

Employer contributions to pension funds

These are the employer contributions to social security and the occupational pension schemes.

4. Information on compensation, guarantees, loans and credits granted to the Board of Directors, the Group Executive Committee and former Board members and closely associated persons with them in the 2014 business year

Guarantees, loans, credits, etc.

No Zehnder Group company has given guarantees, waivers of claims outstanding, credits or loans to present or former members of the Board of Directors, to members of the Group Executive Committee, or to persons closely associated with them.

Compensation for former members of the Board of Directors

Hans-Jakob Zehnder (Honorary president) received in 2013 and 2014 the amount of CHF 85'255 (fixed cash compensation CHF 80'000, Lump sum expense allowances CHF 2'000, employer social security CHF 3'255) as compensation.

Dr. Peter Wiesendanger received in 2013 for his activity as Member of the Board the amount of CHF 21'912 (fixed cash compensation CHF 10'000, Lump sum expense allowances CHF 500, allocated shares for Board activity CHF 10'569, employer social security CHF 843) as compensation.

Compensation for the present members of the Board of Directors

	Notes page 43 ff	2014 ^[1] units	2013 ^[2] units	2014 ^[1] CHF	2013 ^[2] CHF
Hans-Peter Zehnder Chairman of the Board of Directors, China/North America a.i.					
Fixed cash compensation for Board activity				80,000	80,000
Lump-sum expense allowances/actual expenses				6,000	2,000
Allocated shares for Board activity		2,953	2,657	100,070	92,098
Fixed cash compensation for additional services				116,666	–
Variable cash compensation for additional services				43,333	–
Employer social security and pension contributions				34,507	10,480
Shares acquired		804	–	4,260	–
Other payments				1,419	–
Total compensation				386,255	184,578

	Notes page 43 ff	2014 ^[1] units	2013 ^[2] units	2014 ^[1] CHF	2013 ^[2] CHF
Thomas Benz Deputy chairman of the Board of Directors and Chairman of the Compensation Committee					
Fixed cash compensation for Board activity				47,500	40,000
Fixed cash compensation for compensation committee activity				11,250	–
Lump-sum expense allowances/actual expenses				5,827	3,814
Allocated shares for Board and compensation committee activity		2,184	1,328	73,915	46,049
Fixed cash compensation for additional services				5,829	5,905
Employer social security and pension contributions				7,154	5,627
Total compensation				151,474	101,395

	Notes page 43 ff	2014 ^[1] units	2013 ^[2] units	2014 ^[1] CHF	2013 ^[2] CHF
Urs Buchmann Member of the Board of Directors and of the Compensation Committee					
Fixed cash compensation for Board activity				40,000	40,000
Fixed cash compensation for compensation committee activity				7,500	–
Lump-sum expense allowances/actual expenses				6,446	6,233
Allocated shares for Board and compensation committee activity		1,759	1,328	59,586	46,049
Fixed cash compensation for additional services				11,307	11,307
Employer social security and pension contributions				6,931	6,086
Total compensation				131,771	109,674

[1] the shares allocated for Board and compensation committee activity will be transferred in April 2015

[2] the compensation paid to Board members is now disclosed in the performance year (rather than the payment year or the year in which shares were allocated); the prior year's figures were adjusted accordingly

	Notes page 43 ff	2014 ^[1] units	2013 ^[2] units	2014 ^[1] CHF	2013 ^[2] CHF
Riet Cadonau					
Member of the Board of Directors					
Fixed cash compensation for Board activity				40,000	30,000
Allocated shares for Board activity				2,000	1,500
Lump-sum expense allowances/actual expenses		1,477	1,034	50,035	35,480
Employer social security and pension contributions				5,627	4,093
Total compensation				97,662	71,072
Enrico Tissi					
Member of the Board of Directors and of the Compensation Committee					
Fixed cash compensation for Board activity				40,000	40,000
Fixed cash compensation for compensation committee activity				7,500	–
Lump-sum expense allowances/actual expenses				3,035	16,004
Allocated shares for Board and compensation committee activity		1,759	1,328	59,586	46,049
Fixed cash compensation for additional services				60,145	157,584
Employer social security and pension contributions				6,496	10,817
Total compensation				176,762	270,454

Each member of the Board is paid an expense allowance of CHF 2,000 or – provided the expenses exceed this sum – the actual expenses incurred are reimbursed.

	Notes page 43 ff	2014 ^[1] units	2013 ^[2] units	2014 ^[1] CHF	2013 ^[2] CHF
Total compensation paid to the present members of the Board of Directors					
Fixed cash compensation for Board activity				247,500	240,000
Fixed cash compensation for compensation committee activity				26,250	–
Lump-sum expense allowances/actual expenses				23,308	30,051
Allocated shares for Board and compensation committee activity		10,132	7,970	343,190	276,292
Fixed cash compensation for additional services				193,947	174,796
Variable cash compensation for additional services				43,333	–
Employer social security and pension contributions				60,716	37,941
Shares acquired		804	–	4,260	–
Other payments				1,419	–
Total compensation				943,923	759,079

[1] the shares allocated for Board and compensation committee activity will be transferred in April 2015

[2] the compensation paid to Board members is now disclosed in the performance year (rather than the payment year or the year in which shares were allocated); the prior year's figures were adjusted accordingly

Compensation for the Group Executive Committee

The highest compensation for a member of the Group Executive Committee is paid to its chairman until 31 October 2014, Hans-Peter Zehnder.

	Notes page 43 ff	2014 units	2013 units	2014 CHF	2013 CHF
Hans-Peter Zehnder					
Chairman of the Group Executive Committee up to 31.10.2014					
Fixed cash compensation for GEC activity				583,332	699,998
Variable cash compensation for GEC activity				216,667	182,000
Lump-sum expense allowances/actual expenses				20,000	24,000
Employer social security and pension contributions				109,200	126,964
Shares acquired		4,023	4,117	21,315	7,969
Other payments				7,093	10,762
Total compensation				957,607	1,051,693

	Notes page 43 ff	2014 units	2013 units	2014 CHF	2013 CHF
Total compensation paid to the Executive Committee incl. Hans-Peter Zehnder					
Fixed cash compensation				2,377,166	2,335,599
Variable cash compensation				762,667	679,832
Lump-sum expense allowances/actual expenses				116,000	120,000
Employer social security and pension contributions				587,564	555,928
Shares acquired		13,862	10,982	73,393	21,258
Other payments				47,133	49,721
Total compensation				3,963,923	3,762,338

Report of the Statutory Auditor

on the Compensation Report to the General Meeting
of Shareholders of Zehnder Group Ltd, Gränichen

We have audited point 4 of the accompanying compensation report on pages 46 through 49 dated 2 March 2015 of Zehnder Group Ltd for the year ended 31 December 2014.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, point 4 of the compensation report for the year ended 31 December 2014 of Zehnder Group Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Markus Forrer
Licensed Audit Expert
Auditor in Charge

Daniel Spichiger
Licensed Audit Expert

Basel, 2 March 2015



Jim Cooper, project head, River Falls, Wisconsin, USA

On the right to space



A discussion with Jim Cooper,
sustainability expert, author and project
manager of St. Croix Valley
Habitat for Humanity, River Falls,
Wisconsin, USA

Affordable homes for people on low incomes in a community in which environmental sustainability is of paramount importance – the eco village in River Falls is not just wishful thinking, but a genuine flagship project that comes with a guarantee of satisfaction for those involved in it.

The concept of the eco village seems almost too good to be true...

Yes, we consider ourselves very lucky, because St. Croix Valley Habitat for Humanity has developed into a remarkable project.

How did it all start?

We started planning it around eight years ago. Our goal was to build sustainable homes for families who would normally never have been able to afford their own homes, to create a community with a high quality of life – with communal gardens and rainwater collectors on the roofs. We were given the land for the project by the town of River Falls. When the project is complete, 18 families will live in 18 houses in the eco village.

What was the biggest challenge in implementing the plan?

Actually, there was a whole series of challenges, but the topic of energy was a particularly hard nut to crack. Keeping heating costs down is a demanding task in our neck of the woods. River Falls lies so far north that we regularly record temperatures of between -25°C and -35°C in the winter. But we wanted to create houses with low energy requirements. We wanted to make sure that people had money over for other things.

That sounds like pioneering work. What was the solution?

By combining a special façade with the use of renewable energies and very efficient mechanical systems, we succeeded in minimizing the use of energy and reducing energy costs. The houses are all well insulated. They have solar panels on their roofs and are kitted out with Zehnder ComfoAir 350 comfort ventilation systems – an



The framework of a house



A meeting with Jim Cooper

excellent choice. By using this solution, many people will be able to enjoy having a home of their own that they can afford to maintain.

The residents of the eco village are obliged to play an active part in building their houses. To what extent does taking part in constructing your home change your conception of space?

Of course, you develop a very different relationship to the space. They are all building their own little kingdom. For example, we at Habitat* kit out the houses with neutral wall colours, but the home owners then individualize them. They invest a lot of time and report that they are very proud of their houses. They hammer and paint, add walls and plant gardens... Many of them put in more hours than they need to.

They develop a passion for their work to the extent that they want to help building other people's houses when they have finished their own.

Because being busy makes you happy...

Exactly. And friendships develop in the community.

What aspect of this project gives you the greatest pleasure – apart from the project as a whole?

[Laughs.] I'm happy to be a part of this project. I enjoy getting up each morning, even if I don't always have the right solution to hand for every problem. But the enthusiasm of the people involved in the project is infectious and the mutual support from all quarters is impressive.



An installed Zehnder CleanAir 350 ventilation system

**“I am proud to
be part of this
community & project”**

Francisco Paco Grande, 71



Two residents: father Grande and oldest son

How important do you think it is to have your own living space?

Very important, owning your own space is a form of self-appropriation – it has a very big influence on how you live your life and I even think that it affects how you approach life.

Because you can create your space as you wish?

Absolutely, the ability to create your own space as you wish creates hope. And you can achieve great things with hope. Even the sheer fact of having options often gives rise to the drive needed to achieve something in life. The people participating in the eco village would normally not be able to afford a house of their own. They want to take control of their own lives and are highly motivated to create their own living space.

What makes a particular space a home?

There are some beautiful, expensive houses in the neighbourhood that I wouldn't necessarily call a “home” – I would call them “beautiful, expensive houses”. In my opinion, whether a space is a home or not depends on the attitudes and the relationships of the people concerned to each other and to

the space. When their relationship is a positive one, they have a home.

Do you think people have a right to space?

Yes, I think so. In many parts of the world, space is more of a social thing. Here in America, we have a different, rather special relationship to it. For us, space is generally private property, which means that some people will always have more of it than others. But I think that all human beings have the right to a space that they can call their own. A safe space which we are trying to create in the world...

Thank you for the discussion.

* The non-profit organization Habitat for Humanity supports the construction of sustainable, affordable homes for people on low incomes.

Zehnder ComfoAir 350



In the Eco Village in River Falls Zehnder ComfoAir 350 comfort ventilation systems together with a heat pump provide heating, cooling and fresh air for the individual homes. The system combines the greatest comfort with ease of use, high efficiency and flexible integration into the building services. Thanks to intelligent ventilation systems, heat recovery of more than 90 % is guaranteed.

Glossary

Air distribution

→ The quality of the air indoors is crucial to our wellbeing and health. An air distribution system takes the fresh air prepared in the ventilation device to the consumer and returns the waste air full of odours and moisture to the unit. In terms of their easy and safe installation and of hygiene (cleaning), our solutions make us market leaders.

Clean air

→ The limit values applying to fine dust in exterior air are often greatly exceeded indoors. Our clean air devices use unique special filters to filter fine dust out of the indoor air and are usually used in an industrial setting (logistics, production, food-stuffs industry). They allow our customers to cut cleaning costs, improve product quality and protect their employees' health.

Comfort

→ Comfort is a state of well-being but is also applied to user-friendly products. A good indoor climate creates feelings of comfort. Good products and systems are simple to install and easy to handle. It follows that comfort is a result of simplicity in planning, ordering, assembly, service, product operation, functionality, longevity and reliability, as well as low maintenance requirements.

Convection and radiation

→ A radiator gives off heat through convection and radiation. Convection needs a medium (for example air) to transport the heat, whereas radiation does not. Thermal radiation passes through the air in the room unhindered, but is absorbed by objects and people or reflected by metallic surfaces. The combination of convection and radiation produces the total thermal output.

Cooling with radiators

→ In principle, radiators can also be used for cooling purposes. The principles of radiation and convection can also cool rooms. Thanks to their increased heat transmission, so-called fan coils are particularly well suited to cooling applications. The same applies to radiation heaters, for example radiant ceiling panels, where the room gives off heat to the cool radiation surface.

Energy efficiency

→ Energy efficiency is the ratio between energy output and energy input. An energy-efficient indoor climate calls for efficient heating and cooling, temperature controls, a ventilation control system and the use of renewable energy. The degree of energy efficiency is influenced by many other factors, such as thermal insulation, airtightness and a sun-protected building envelope. Highly airtight buildings require automatic ventilation.

Enthalpy exchangers

→ A thermal recovery unit fitted with an enthalpy exchanger also transmits moisture through a membrane. This allows our devices to enhance system efficiency further by using latent heat, and to improve comfort levels by avoiding situations where the air is too dry or too damp.

Health

→ Health is a state of physical, mental and social wellbeing. Among the many factors which influence our health, our environment clearly plays a major role. Consequently, as we spend more than 70 % of our time indoors, the quality of this environment is decisive. Moreover, the freshness and quality of the air around us, as well as the odours, dust, pollen, vermin, humidity, air circulation, room temperature and noise level impact strongly our health.

Heat pumps

→ Heat pumps use the natural energy in our environment to heat rooms and water. They function in the same way as a refrigerator. Heat is taken from a low to a high temperature level. Just as a refrigerator gives off heat from the cool unit to the warmer room, heat from the earth or exterior air is fed into the indoor heating system. The system uses a refrigerant which vaporises in the cool area, is compressed

sed via a compressor and then gives off heat when it condenses again at a higher temperature. The brine/water heat pump integrated in Zehnder's ComfoBox 5 uses the most efficient principle for indoor heating.

Low-temperature radiators

→ Radiators with a flow temperature of less than 50 °C are known as low-temperature radiators. They are also suited for use with heat pumps at even lower temperatures or with condensing gas burners.

Radiant ceiling panels

→ Radiant ceiling panels are as close as we can get to mimicking the way heat is given off by the sun. Our radiant ceiling panels are used wherever convection heating is not economically viable or where the enhanced comfort of air not circulating is appreciated, for example in large indoor areas, and increasingly also in offices.

Radiators

→ A radiator transfers heat from a heating medium (usually water or, in electric radiators, oil) to the environment (usually air) to produce and maintain the desired room temperature. Within only a few days we supply our customers with customised designer radiators directly to their chosen site.

System supplier, system-based business

→ Alongside our traditional component-based business, we are increasingly supplying customers with complete systems combining heating, hot water preparation, ventilation and cooling. This guarantees installers and our end customers a reliable system for an optimal indoor climate with regard to comfort, health (allergies) and energy efficiency.

Thermal comfort

→ Thermal comfort is key to ensuring a sense of cosiness in a room. Apart from clothing and human activity, it depends on room temperature, relative air humidity, air speed and the temperature of the surfaces enclosing the room.

Thermal recovery, thermal recovery unit

→ Our thermal recovery units transfer up to 95 % of the energy of warm, used indoor air to the cold, fresh exterior air. The performance levels reached (ratio between useful heat and electricity used) clearly exceed even those of the best heat pumps for indoor heating. They also filter out harmful pollen and dust from the air and reliably prevent mould forming indoors.

Contents

Financial Report

Consolidated Financial Statements

- 59 Five-year Overview
- 60 Data per Share
- 61 Consolidated Balance Sheet
- 62 Consolidated Income Statement
- 63 Consolidated Cash Flow Statement
- 65 Consolidated Statement
of Changes in Equity
- 66 Consolidation Matrix and Principles
- 68 Accounting and Valuation Principles
- 71 Notes to the Consolidated
Financial Statements
- 89 Overview of Companies
- 92 Report of the Statutory Auditor

Zehnder Group AG

- 94 Balance Sheet
- 95 Income Statement
- 96 Notes to the Financial Statements
- 100 Proposed Appropriation of Earnings
- 101 Report of the Statutory Auditor

- 103 Further Information for Investors

Five-year Overview

		2014	2013	2012	2011	2010
Net sales	EUR million	525.1	522.4	523.8	515.4	475.9
change from prior year	%	0.5	-0.3	1.6	8.3	9.0
of which Radiators	EUR million	333.5	345.8	349.4	348.2	335.1
change from prior year	%	-3.6	-1.0	0.3	3.9	5.4
of which Ventilation	EUR million	191.6	176.7	174.3	167.1	140.8
change from prior year	%	8.5	1.3	4.3	18.7	18.7
EBIT	EUR million	32.7	32.3	38.5	51.1	50.4
change from prior year	%	1.1	-16.0	-24.7	1.3	17.3
	% of net sales	6.2	6.2	7.3	9.9	10.6
Net income^[1]	EUR million	26.0	18.2	26.8	41.1	38.2
change from prior year	%	42.8	-32.0	-34.7	7.4	14.5
	% of net sales	5.0	3.5	5.1	8.0	8.0
Net income before depreciation & amortization^[1]	EUR million	45.9	37.4	45.1	58.9	55.8
change from prior year	%	22.9	-17.1	-23.4	5.4	7.6
	% of net sales	8.7	7.2	8.6	11.4	11.7
Investments in property, plant & equipment	EUR million	24.1	35.1	37.3	34.9	20.0
Depreciation & amortization	EUR million	19.9	19.1	18.2	17.8	17.6
Total assets	EUR million	429.7	412.6	407.3	406.0	378.4
Fixed assets	EUR million	193.1	183.8	177.7	160.1	141.4
Shareholders' equity^[1]	EUR million	281.8	255.5	247.6	239.7	217.4
	% of total assets	65.6	61.9	60.8	59.0	57.5
Employees	31 December	3,185	3,283	3,135	3,094	2,945
Zehnder Group AG						
Dividends ^[2]	CHF million	11.7	6.5	10.6	2.3	7.3
Nominal value repayment	CHF million	-	-	-	14.1	14.7
Share capital	CHF million	0.6	0.6	0.6	14.7	29.3
Market capitalization ^[3]	CHF million	402.9	400.0	429.3	501.0	553.7
Total market capitalization ^[4]	CHF million	484.7	481.2	516.4	602.6	666.0

[1] including minority interests

[2] for 2014 as proposed by the Board of Directors

[3] market value of all listed bearer shares at year end; excluding value of unlisted registered shares

[4] bearer and registered shares; registered shares recognized at 1/5 of the bearer share price at year end

Data per Share^[1]

			2014	2013	2012	2011	2010
Shares outstanding							
bearer shares	in thousands	units	9,756	9,756	9,756	9,756	9,756
	each with a par value of	CHF	0.05	0.05	0.05	1.25	2.50
registered shares (not listed)	in thousands	units	9,900	9,900	9,900	9,900	9,900
	each with a par value of	CHF	0.01	0.01	0.01	0.25	0.50
number of voting rights or shares	in thousands	units	19,656	19,656	19,656	19,656	19,656
notional number of shares	in thousands	units	11,736	11,736	11,736	11,736	11,736
	each with a par value of	CHF	0.05	0.05	0.05	1.25	2.50
Market prices (January–December)							
bearer shares	high	CHF	43.45	48.15	67.30	71.00	58.30
bearer shares	low	CHF	33.10	34.05	39.80	42.50	34.00
bearer shares	at year end	CHF	41.30	41.00	44.00	51.35	56.75
Consolidated net income							
per bearer share		EUR	2.18	1.41	2.31	3.41	3.19
Consolidated net income before depreciation and amortization							
per bearer share		EUR	3.88	3.04	3.87	4.93	4.69
Consolidated equity^[2]							
per bearer share		EUR	22.84	20.82	20.30	19.42	17.63
Dividend (gross) and nominal value repayment							
dividend per bearer share ^[3]		CHF	1.00	0.55	0.90	0.20	0.63
nominal value repayment per bearer share		CHF	–	–	–	1.20	1.25
payout ratio	% of net income per share		38	32	32	33	43

[1] all data excluding minority interests; all data on the basis of total shares outstanding at year end

[2] before appropriation of earnings

[3] for 2014 as proposed by the Board of Directors

Consolidated Balance Sheet

EUR million	Notes page 71 ff	2014 31 December	2013 31 December	%
Assets				
Liquid assets	1	73.7	61.8	
Trade accounts receivable	2	88.1	89.3	
Other receivables	2	13.0	12.9	
Inventories	3	57.1	57.8	
Prepayments		2.0	2.9	
Accrued income		2.8	4.0	
Total current assets		236.6	228.7	3.4
Fixed assets	4	186.9	177.2	
Financial assets	4	3.4	3.7	
Intangible assets	4	2.8	2.9	
Total fixed assets		193.1	183.8	5.0
Total assets		429.7	412.6	4.2
Liabilities & shareholders' equity				
Loans	5	1.2	17.0	
Trade accounts payable	5	25.9	25.4	
Other liabilities ^[1]	5	40.9	34.7	
Provisions	6	8.8	5.6	
Accruals and deferred income	5	31.6	32.9	
Current liabilities		108.3	115.6	-6.3
Loans	5	8.7	12.6	
Provisions	6	30.9	28.8	
Long-term liabilities		39.6	41.4	-4.3
Total liabilities		147.9	157.0	-5.8
Share capital		0.4	0.4	
Capital reserves		33.6	33.6	
Own shares		-2.0	-2.2	
Retained earnings		238.7	218.9	
Accumulated FX differences		-2.7	-6.4	
Minority interests		13.7	11.2	
Total equity	7	281.8	255.5	10.3
Total liabilities & shareholders' equity		429.7	412.6	4.2

[1] Includes the proceeds from the advanced payments in relation to the sale of factory property in China amounting to EUR 11.0 million (2014)

Consolidated Income Statement

EUR million	Notes page 71 ff	2014	2013	%
Net sales	18	525.1	522.4	0.5
Changes in inventories		0.4	-1.2	
Internal additions to plant and equipment		-	0.2	
Other income ^[1]		5.1	15.1	
Total income		530.6	536.5	-1.1
Cost of materials		-183.8	-184.5	
Personnel costs	19	-176.6	-174.4	
Depreciation of fixed assets	4	-18.7	-18.0	
Amortization of intangible assets	4	-1.2	-1.1	
Other operating expenses	20	-117.6	-126.1	
Earnings before interest and taxes (EBIT)		32.7	32.3	1.1
Result from associated companies	4	-0.3	-0.3	
Financial result	21	1.9	-3.6	
Earnings before taxes		34.3	28.4	20.8
Income taxes	22	-8.2	-10.1	
Net income		26.0	18.2	42.8
Minority interests		0.4	1.7	
Net income excluding minority interests		25.6	16.5	

[1] includes the sale of real estate in China with a one-off positive effect on operating profit (EBIT) of EUR 9.2 million (2013)

Consolidated Cash Flow Statement

EUR million	2014	2013
Net income	26.0	18.2
Depreciation and amortization of tangible fixed assets	18.7	18.0
Depreciation and amortization of intangible assets	1.2	1.1
Net income before depreciation and amortization	45.9	37.4
Non-cash change in valuation adjustments on receivables and inventories	1.3	2.9
Loss/(gain) on disposals of tangible fixed assets	0.1	-9.6
Result from associated companies	0.3	0.3
Increase/(decrease) of provisions	4.7	-0.4
Increase/(decrease) of trade accounts payable	-0.3	-2.1
Increase/(decrease) of other short-term liabilities, accruals and deferred income	-8.8	5.1
(Increase)/decrease of trade accounts receivable	3.3	-4.2
(Increase)/decrease of inventories	2.0	7.2
(Increase)/decrease of other receivables, prepayments and accrued income	2.6	1.2
Cash flows from operating activities	51.3	37.9
Investments in tangible fixed assets	-24.1	-35.1
Investments in financial assets ^[1]	-0.7	-1.0
Investments in intangible assets	-1.1	-0.8
Divestment of tangible fixed assets ^[2]	12.3	11.5
Cash flows from investing activities	-13.6	-25.3

[1] increase of the participation in dPoint Technologies Inc. by 2 % to 33 % (2014), respectively by 5 % to 31 % (2013)

[2] includes the proceeds from the advanced payments in relation to the sale of factory property in China amounting to EUR 11.0 million (2014), respectively the final payment in relation to the sale of real estate in China amounting to EUR 9.7 million (2013)

EUR million	2014	2013
Dividends paid to shareholders	-5.3	-8.6
(Purchase)/ sale of own shares	0.2	0.4
Increase/(decrease) of short-term loans	-16.0	3.2
Increase/(decrease) of long-term loans	-4.5	-0.3
Increase/(decrease) of other liabilities	-	-0.3
Cash flows from financing activities	-25.6	-5.6
Currency effects	-0.3	1.4
Increase/(decrease) of cash and cash equivalents	11.8	8.4
Cash and cash equivalents at 1.1.	61.8	53.5
Cash and cash equivalents at 31.12.	73.7	61.8
Increase/(decrease)	11.8	8.4

Consolidated Statement of Changes in Equity

EUR million	Share capital	Capital reserves	Own shares	Retained earnings	Accumulated FX differences	Total excluding minority interests	Minority interests	Total including minority interests
Equity at 1.1.2014	0.4	33.6	-2.2	218.9	-6.4	244.3	11.2	255.5
Purchase of own shares	-	-	-1.0	-	-	-1.0	-	-1.0
Sale of own shares	-	-	1.2	-0.1	-	1.1	-	1.1
Net income	-	-	-	25.6	-	25.6	0.4	26.0
Netted goodwill	-	-	-	-0.5	-	-0.5	-	-0.5
Currency effects	-	-	-	-	3.8	3.8	2.1	5.8
Dividends	-	-	-	-5.3	-	-5.3	-	-5.3
Equity at 31.12.2014	0.4	33.6	-2.0	238.7	-2.7	268.1	13.7	281.8
Equity at 1.1.2013	0.4	33.6	-2.6	211.5	-4.8	238.1	9.5	247.6
Purchase of own shares	-	-	-0.9	-	-	-0.9	-	-0.9
Sale of own shares	-	-	1.3	-	-	1.3	-	1.3
Net income	-	-	-	16.5	-	16.5	1.7	18.2
Netted goodwill	-	-	-	-0.5	-	-0.5	-	-0.5
Currency effects	-	-	-	-	-1.6	-1.6	-	-1.6
Dividends	-	-	-	-8.6	-	-8.6	-	-8.6
Equity at 31.12.2013	0.4	33.6	-2.2	218.9	-6.4	244.3	11.2	255.5

Consolidation Matrix and Principles

Consolidation Matrix

The consolidated financial statements are presented in euros and include all domestic and foreign companies in which Zehnder Group AG directly or indirectly holds more than 50 % of the voting rights. Assets and liabilities as well as revenues and expenses are included to 100 % in accordance with the full consolidation method. Minority interests in equity and in net income of fully consolidated companies are recognized separately.

Holdings with a voting interest of between 20 and 49 % (associated companies) are included in accordance with the equity method. Consolidated equity and the financial result for the period are accounted for proportionately.

Companies in which the participation is 50 % or less can also be fully consolidated provided that legally binding agreements on supervision have been signed.

The following changes were made in the consolidation matrix compared to the previous year:

- Merger of Zehnder Group Schweiz AG and Zehnder Comfosystems Cesovent AG to form Zehnder Group Schweiz AG, retrospectively as of 1 January 2014,
- Merger of Zehnder Group International Ltd and Zehnder Verkaufs- und Verwaltungs-AG to form Zehnder Group International Ltd, retrospectively as of 1 January 2014,
- Merger of Zehnder Group AG and Runtal Holding Company AG to form Zehnder Group AG, retrospectively as of 1 January 2014,
- The stake in dPoint Technologies Inc. was increased by 2 percentage points to 33% as at 31 March 2014.

Consolidation Principles

General

The consolidated balance sheet and income statement of the Zehnder Group are based on the audited financial statements of the companies included in the consolidation matrix for the year ended 31 December.

The data presented in the consolidated financial statements are based on uniform accounting and valuation principles which apply to all Group companies.

Intergroup receivables and payables as well as revenues and expenses are eliminated in the consolidated statements. Intermediate profits in inventories are eliminated as well.

Foreign currency translation

For the year under review, the financial statements of subsidiaries which report in currencies other than the euro were translated into euro (EUR) as follows:

- balance sheet figures at year-end rates,
- income statement figures at average-for-the-year rates,
- cash flow statement figures at average-for-the-year rates.

Differences arising from applying these disparate exchange rates as well as foreign exchange differences on long-term loans of an equity nature to Group companies were booked to the cumulative translation differences of the consolidated equity capital.

The most important exchange rates used for consolidation are shown in the following table:

	CHF 1	USD 1	GBP 1	SEK 1	CNY 100	PLN 100	TRY 100
Year end rates							
2014	0.8314	0.8227	1.2780	0.1055	13.40	23.28	35.44
2013	0.8159	0.7264	1.1979	0.1121	11.89	24.12	33.97
Average-for-the-year rates							
2014	0.8235	0.7537	1.2409	0.1100	12.27	23.91	34.48
2013	0.8128	0.7533	1.1782	0.1157	12.17	23.86	39.71

Capital consolidation

Capital is consolidated to show equity capital as if the Group were one single company. To do this, it is necessary to offset the net worth of consolidated companies against the capital allotted to them.

Basically, capital is consolidated in accordance with the Anglo-Saxon purchase method. The assets and liabilities of the consolidated subsidiary are valued on the date of the first consolidation in accordance with the Group's guidelines. After this revaluation or "step up", any goodwill remaining (positive difference between the purchase price and the total disclosed equity capital of the acquired company after revaluation) is directly charged to the Group's equity capital at the time of acquisition. Any goodwill on associated companies is also charged to the equity capital.

Accounting and Valuation Principles

The balance sheets of all subsidiaries of Zehnder Group AG have been valued according to uniform valuation principles in accordance with the Swiss accounting and reporting recommendations (Swiss GAAP FER). The financial reporting gives a true and fair view of the financial position, the results of operations and the cash flows. The consolidation principles as well as the accounting and valuation principles applied remained unchanged year on year.

1. Liquid assets, financial assets and securities

Cash, postal checking account, and bank balances are shown at nominal values.

2. Trade accounts receivable

Trade accounts receivable are shown at nominal value less allowances for specific currency or credit risks as well as general allowances for bad and doubtful debts. The latter are based on experience.

3. Inventories

Inventories are valued on the lower of cost or market principle. Purchased products are valued at acquisition cost and manufactured goods at production cost. Production costs comprise variable manufacturing costs and manufacturing overheads. Valuation adjustments are undertaken for risks arising from time in storage or reduced marketability. Unrealized profits in inventories from intergroup deliveries are eliminated. Any supplier discounts are netted with the cost of materials.

4. Property, plant and equipment

Property, plant and equipment are shown in the consolidated balance sheet at acquisition or manufacturing cost (for self-constructed assets) less depreciation and valuation adjustments from impairment. The following terms of useful life are applicable for the main items contained in property, plant and equipment:

Buildings	35 to 50 years
Installations	10 to 20 years
Machines and equipment	5 to 15 years
Furniture	5 to 10 years
Computer hardware	3 to 5 years
Vehicles	3 to 5 years

The straight-line method of depreciation is applied for all tangible fixed assets. In general, depreciation commences from the time the asset is put into operation. Plant under construction is not depreciated.

Minor assets to a value of up to EUR 3,000 are charged directly as expenses to the income statement. Investments financed through long-term leases are shown on the balance sheet. Expenses for operating leasing are charged directly to the income statement.

Costs for maintenance, repairs, and minor renovations are charged as expenses to the income statement when they occur. Major renovations and investments are capitalized if they result in appreciation of value.

5. Financial assets

Holdings with a voting interest of less than 20 % and loans are valued at nominal or acquisition cost less the necessary valuation adjustments.

6. Intangible assets

Acquired intangible assets are recognized at acquisition cost. Computer software is written down on a straight-line basis over 3 to 5 years, other intangible assets over 3 to 10 years. Internally generated intangible assets are fully charged to the income statement in the year in which they are incurred.

7. Impairment of assets

The carrying amounts of assets are reviewed for impairment at each balance sheet date or if there are indications that an asset may be impaired. If an indication of potential impairment exists, the recoverable amount of the respective asset is determined. If the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. Impairment losses are recognized in the income statement. The recoverable amount is the higher of the estimated asset's net selling price and its value in use. The net selling price is the amount recoverable from the sale of an asset in an arm's length transaction between independent parties less the cost of disposal. The value in use is the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

8. Trade accounts payable and other liabilities

Trade accounts payable and other liabilities are shown at nominal value. They include short-term tax liabilities, shown in the balance sheet on the basis of the results for the reporting year. This item also includes taxes on the proposed distribution of profits by subsidiaries.

9. Provisions

Provisions are made for pension and retirement plans, to cover recognizable risks such as warranty, litigation, currency, and country risks, and to fund ongoing restructuring measures. They also include provisions for deferred taxes. These arise from differences in individual company accounts between Group assessment and assessment for tax purposes. Such differences can lead to a time lag before taxes on income are due. Deferred taxes are calculated on the basis of taxes on earnings payable per country. Actual tax expenditure in the foreseeable future is not taken into consideration. The provisions for taxes also include provisions for offsetting risks resulting from tax audits.

10. Pension funds

Employees of the Swiss Group companies are registered with a legally independent collective foundation that provides benefits in addition to state pensions. The collective foundation is funded through investment income and premiums paid by both employers and employees. The contributions payable are set out in the regulations.

The economic effects of pension plans on the company are presented as follows: Although the capitalization of economic benefit would be admissible, it is not undertaken because the company does not intend to use this to lower employer contributions. Any benefit resulting from freely disposable employer contribution reserves is recognized as an asset. An economic liability is recognized if the conditions for forming a provision are met. The employer contributions to the pension fund for the reporting period are recognized in the income statement.

In most countries abroad, pension and retirement plans are state organized. They are generally financed through employer and employee contributions. Two of our German companies have a pension plan in addition to the state scheme. Its liabilities in this respect are recognized in the balance sheet under provisions.

11. Derivative financial instruments

Derivative financial instruments are sometimes used to hedge against currency, interest rate and commodity risks. Valuation is undertaken at current value or according to the same valuation principles as for the hedged underlying transaction (current values or according to lower of cost or market principle). The changes in value since the previous valuation are reported in the financial result for the period.

Instruments used to hedge future cash flows are not recognised in the balance sheet but are reported in the Notes until the future cash flow is realised.

Notes

to the Consolidated Financial Statements

1. Liquid assets

The reasons for changes in liquid assets are set out in the cash flow statement. Liquid assets amounted to EUR 73.7 million (2013: EUR 61.8 million) whereas interest-bearing financial liabilities reached EUR 9.9 million (2013: EUR 29.6 million). Thus, at year end, net liquidity amounted to EUR 63.7 million (2013: EUR 32.2 million).

2. Accounts receivable from sales and services and other receivables

EUR million	31.12.2014	31.12.2013
Accounts receivable gross*	106.8	107.6
Valuation adjustments	-5.7	-5.3
Accounts receivable net	101.0	102.2
* of which more than 12 months overdue gross	2.2	1.9

3. Inventories

EUR million	31.12.2014	31.12.2013
Raw materials	35.9	36.0
Semi-finished products and goods in process	4.0	3.7
Finished products	29.3	29.0
Valuation adjustments	-12.2	-10.9
Total inventories	57.1	57.8

4. Development of fixed assets

EUR million	Land/ buildings/ installations in buildings	Machinery/ plant	Other fixed assets	Plant under construction	Total
Tangible fixed assets					
Net book value at 1.1.2014	113.1	44.6	10.5	9.1	177.2
Acquisition cost					
Status 1.1.2014	188.9	225.6	32.6	9.1	456.1
Investments	4.9	5.2	2.9	11.1	24.1
Disposals	-0.1	-11.4	-2.2	-0.3	-13.9
Reclassifications	5.0	2.9	0.4	-8.6	-0.3
Currency effects	6.1	2.7	0.3	0.1	9.2
Status 31.12.2014	204.7	225.0	34.0	11.4	475.1
Accumulated valuation adjustments					
Status 1.1.2014	-75.8	-181.0	-22.1	-	-278.9
Ordinary depreciation	-4.9	-9.8	-4.1	-	-18.7
Disposals	0.1	11.0	1.9	-	13.0
Reclassifications	-	0.2	0.1	-	0.2
Currency effects	-1.5	-2.0	-0.3	-	-3.9
Status 31.12.2014	-82.1	-181.6	-24.6	-	-288.2
Net book value at 31.12.2014	122.6	43.4	9.5	11.4	186.9

EUR million	Land/ buildings/ installations in buildings	Machinery/ plant	Other fixed assets	Plant under construction	Total
Tangible fixed assets					
Net book value at 1.1.2013	98.6	37.2	9.8	24.8	170.3
Acquisition cost					
Status 1.1.2013	172.2	221.1	31.8	24.8	449.8
Investments	2.3	8.4	4.5	19.8	35.1
Disposals	-8.9	-12.3	-2.9	-	-24.0
Reclassifications	25.2	10.4	-0.5	-35.6	-0.6
Currency effects	-1.9	-2.1	-0.3	0.1	-4.3
Status 31.12.2013	188.9	225.6	32.6	9.1	456.1
Accumulated valuation adjustments					
Status 1.1.2013	-73.5	-183.9	-22.0	-	-279.5
Ordinary depreciation	-4.8	-10.0	-3.3	-	-18.0
Disposals	1.9	11.7	2.4	-	16.0
Reclassifications	-	-0.1	0.6	-	0.5
Currency effects	0.6	1.3	0.2	-	2.1
Status 31.12.2013	-75.8	-181.0	-22.1	-	-278.9
Net book value at 31.12.2013	113.1	44.6	10.5	9.1	177.2

Investments in tangible fixed assets were undertaken in the following regions:

EUR million	2014	2013
Europe	14.7	20.9
Switzerland	1.6	2.7
China/North America	7.7	11.6
Total	24.1	35.1

EUR million	Financial assets	Loans	Reserves for employer contributions	Associated companies	Total
Financial assets					
Net book value at 1.1.2014	-	0.2	3.1	0.3	3.7
Acquisition or current book value					
Status 1.1.2014	1.9	0.8	3.1	0.3	6.1
Investments	-	0.1	-	0.1	0.2
Disposals	-1.8	-0.7	-	-	-2.5
Result from associated companies	-	-	-	-0.3	-0.3
Status 31.12.2014	-	0.3	3.2	-	3.6
Accumulated valuation adjustments					
Status 1.1.2014	-1.8	-0.6	-	-	-2.5
Disposals	1.8	0.5	-	-	2.3
Status 31.12.2014	-	-0.2	-	-	-0.2
Net book value at 31.12.2014	-	0.1	3.2	-	3.4
Net book value at 1.1.2013	0.1	0.3	3.2	0.5	4.1
Acquisition or current book value					
Status 1.1.2013	1.9	1.0	3.2	0.5	6.6
Investments	-	-	-	0.1	0.2
Disposals	-0.1	-0.2	-	-	-0.2
Result from associated companies	-	-	-	-0.3	-0.3
Status 31.12.2013	1.9	0.8	3.1	0.3	6.1
Accumulated valuation adjustments					
Status 1.1.2013	-1.8	-0.6	-	-	-2.5
Status 31.12.2013	-1.8	-0.6	-	-	-2.5
Net book value at 31.12.2013	-	0.2	3.1	0.3	3.7

EUR million	2014	2013
Intangible assets		
Net book value at 1.1.	2.9	3.3
Acquisition cost		
Status 1.1.	11.2	10.2
Investments	1.1	0.8
Disposals	-1.1	-0.3
Reclassifications	0.3	0.6
Currency effects	0.1	-0.1
Status 31.12.	11.6	11.2
Accumulated valuation adjustments		
Status 1.1.	-8.3	-7.0
Ordinary amortization	-1.2	-1.1
Disposals	1.0	0.3
Reclassifications	-0.2	-0.5
Status 31.12.	-8.8	-8.3
Net book value at 31.12.	2.8	2.9

5. Trade accounts payable/other liabilities/accruals and deferred income/loans

The above items fall due as set out in the table below.

EUR million	less than 12 months	12 months to 60 months	more than 60 months	2014	2013
Trade accounts payable	25.9	–	–	25.9	25.4
Other liabilities	40.9	–	–	40.9	34.7
Accruals and deferred income	31.6	–	–	31.6	32.9
Loans	1.2	5.0	3.7	9.9	29.6
Total	99.5	5.0	3.7	108.3	122.7

The accruals and deferred income item include current tax liabilities in the amount of EUR 1.0 million (2013: EUR 1.0 million).

6. Provisions

EUR million	Provisions for deferred taxes	Pension commitments	Provisions for restructuring	Other provisions	Total
Book value at 1.1.2014	10.1	10.6	1.5	12.1	34.3
New provisions	1.1	1.3	2.4	5.1	10.0
Use	-0.1	-0.4	-0.4	-1.2	-2.1
Reversals	-0.2	-	-0.3	-2.6	-3.2
Currency effects	0.2	-	0.1	0.2	0.5
Book value at 31.12.2014	11.2	11.6	3.2	13.6	39.6
of which short term	-	0.4	2.5	5.8	8.8
Book value at 1.1.2013	11.6	9.3	1.1	13.0	35.0
New provisions	0.5	1.7	1.5	0.7	4.5
Use	-	-0.3	-1.0	-0.3	-1.7
Reversals	-2.0	-0.1	-	-1.2	-3.2
Currency effects	-0.1	-	-	-0.1	-0.2
Book value at 31.12.2013	10.1	10.6	1.5	12.1	34.3
of which short term	-	-	0.6	5.0	5.6

The provisions for taxes include deferred taxes as well as other provisions for taxes in accordance with point 9 of the accounting and valuation principles on page 69.

The discount rate for German pension commitments was 4.58 % (2013: 4.9 %).

Provisions for restructuring are calculated annually and adjusted accordingly. It is assumed that there is a high likelihood of these provisions being used.

The other provisions are primarily provisions for guarantees and for pending legal proceedings.

7. Equity capital

On 31 December 2014, the equity ratio was 66 % (2013: 62 %). The factors that contributed to changes in consolidated equity are presented in the consolidated statement of changes in equity.

As in 2013 the share capital totalled CHF 0.6 million, corresponding to EUR 0.4 million at the exchange rate on 1 January 2003. It is made up of 9,756,000 bearer shares with a par value of CHF 0.05 each and 9,900,000 registered shares with a par value of CHF 0.01 each.

The statutory and legal reserves and those not available for distribution amounted to EUR 2.4 million (2013: EUR 3.0 million).

	2014 Bearer shares units	2014 Value per unit EUR	2014 Value EUR 1,000	2013 Bearer shares units	2013 Value per unit EUR	2013 Value EUR 1,000
Own shares at 1.1.	75,679^[1]	28.79	2,179	83,042^[2]	31.54	2,619
Sale at (theoretical) market price	-37,791	30.27	-1,144	-32,363	39.08	-1,265
Gain/(loss) from sale			-52			-48
Purchase at acquisition price	31,322	31.15	976	25,000	34.89	872
Own shares at 31.12.	69,210^[1]	28.30	1,958	75,679^[2]	28.79	2,179

[1] of which 47,587 (1.1.) or 37'888 (31.12.) reserved for the option program

[2] of which 49,747 (1.1.) or 47'587 (31.12.) reserved for the option program

Shares were sold at a discount of 30 % to management staff participating in a stock ownership plan (see Shares granted, p. 86).

Major shareholders as defined in Art. 663c of the Swiss Code of Obligations (company law) are disclosed in the individual financial statements of Zehnder Group AG.

8. Contingent liabilities

At year end, there were guarantee obligations vis-à-vis third parties totalling EUR 5.0 million (2013: EUR 7.5 million).

In addition, there is a potential obligation to increase the stakes in Shanghai Nather Air Tech Co. Ltd totalling around EUR 1.1 million. The obligation is dependent on the minority shareholders exercising put options.

9. Pledged assets

Of the group's total assets, EUR 30.3 million served as collateral (2013: EUR 30.2 million). The pledged assets were exclusively land and buildings.

10. Liabilities to pension funds

At 31 December 2014, there were liabilities to pension funds in the amount of EUR 0.5 million (2013: EUR 0.6 million).

11. Accounts receivable and payable vis-à-vis closely associated persons

As in the previous year there were no accounts receivable from or payable to not fully consolidated companies or known shareholders.

12. Transactions with closely associated persons

In the reporting year products worth EUR 0.9 million were purchased from not fully consolidated companies (2013: EUR 0.7 million).

13. Deferred tax assets

There are a few companies that have tax loss carryforwards. In view of their economic situation and the legally limited period over which such carryforwards can be exploited, deferred tax assets are not capitalized. However, Zehnder Group expects that tax loss carryforwards of EUR 41.3 million (2013: EUR 34.6 million) can be utilized in the future. The respective deferred tax assets amount to EUR 6.3 million (2013: EUR 5.6 million).

14. Minority interests

During the reporting year, as in the previous year, Zehnder Group undertook no significant transactions with third party shareholders in subsidiaries with the exception of fulfilling existing obligations.

15. Derivative financial instruments

EUR million	31.12.2014 active value	31.12.2014 passive value	31.12.2013 active value	31.12.2013 passive value	purpose
Foreign exchange	0.1	–	–	–	hedging
Interest	–	0.4	–	0.6	hedging
Total	0.1	0.4	–	0.6	

16. Operating leasing not recognized in the balance sheet

Current operating leasing contracts expire as follows:

EUR million	31.12.2014	31.12.2013
within 12 months	2.1	2.6
in 13 – 60 months	4.9	5.6
in more than 60 months	0.6	0.9
Total	7.7	9.1

17. Employer contribution reserves and pension fund liabilities

Please see point 10 on page 70 for the accounting and valuation principles applied for pension commitments.

The provisions made in respect of pension commitments are detailed on page 77.

Employer contribution reserve (ECR) in EUR 1,000 2014	Nominal value 31.12.2014	Not utilized 31.12.2014	Other valuation adjustments 31.12.2014	Balance sheet 31.12.2014	Balance sheet 31.12.2013	Currency effects resulting from ECR 2014	Result from ECR in financial earnings 2014
Pension trust fund	3,246	-	-	3,246	3,139	59	48
Total	3,246	-	-	3,246	3,139	59	48

Economic benefits/economic liabilities and pension expenses in EUR 1,000 2014	Excess/(inadequate) cover 31.12.2014	Economic share of organization 31.12.2014	Economic share of organization 31.12.2013	Capitalized in business year 2014	Contributions accrued 2014	Pension expenses in personnel expenses 2014	Pension expenses in personnel expenses 2013
Pension trust fund	707	-	-	-	-	-	-
Personnel pension fund collective fund	n/a ^[1]	-	-	-	1,931	1,931	2,270
Pension plans abroad	-	-	-	-	8,212	8,212	8,553
Total	707	-	-	-	10,143	10,143	10,823

[1] the 2014 financial statements of the collective fund are not yet available as of the date of publication of this annual report; as of 31.12.2013, there was excess cover of EUR 1.0 million

18. Sales

At EUR 525.1 million consolidated sales in 2014 were slightly higher than in 2013 (2013: EUR 522.4 million). On an organic basis and adjusted for currency effects, sales revenues remained on par with 2013.

		2014	2014 %	2013	2013 %
Sales by region and segment					
Radiators Europe	EUR Million	288.8	55.0	295.7	56.6
change from prior year	%	-2.3		-2.9	
Radiators North America	EUR Million	29.7	5.7	30.6	5.9
change from prior year	%	-2.9		12.7	
Radiators China	EUR Million	15.0	2.9	19.5	3.7
change from prior year	%	-23.0		10.3	
Total radiators	EUR million	333.5	63.5	345.8	66.2
change from prior year	%	-3.6		-1.0	
Ventilation Europe	EUR Million	178.0	33.9	168.1	32.2
change from prior year	%	5.9		2.1	
Ventilation North America	EUR Million	3.7	0.7	2.1	0.4
change from prior year	%	80.9		-8.7	
Ventilation China	EUR Million	9.9	1.9	6.5	1.2
change from prior year	%	52.7		-12.4	
Total ventilation	EUR million	191.6	36.5	176.7	33.8
change from prior year	%	8.5		1.3	
Total Europe	EUR Million	466.8	88.9	463.8	88.8
change from prior year	%	0.6		-1.2	
Total North America	EUR Million	33.4	6.4	32.6	6.2
change from prior year	%	2.3		11.1	
Total China	EUR Million	24.9	4.7	26.0	5.0
change from prior year	%	-4.1		3.6	
Total	EUR million	525.1	100.0	522.4	100.0
change from prior year	%	0.5		-0.3	

19. Personnel costs

Personnel costs rose by 1 %. Social security and pension fund expenditure amounted to 19 % (2013: 21 %) of total personnel costs. Personnel figures developed as follows (as at 31 December):

	2014	2013
By region		
Europe	2,176	2,187
Switzerland	371	371
China/North America	637	725
Total employees	3,185	3,283

20. Other operating expenses

The other operating expenses break down as follows:

EUR million	2014	2013
Operating expenses	-45.1	-47.3
Marketing and advertising expenses	-43.3	-47.0
Administration expenses	-29.3	-31.8
Total	-117.6	-126.1

Process and cost optimizations resulted in lower operating expenses in the year under review.

21. Financial result

The exchange gains of EUR 2.2 million (exchange losses of EUR 2.9 million in the previous year) is primarily attributable to non-realized foreign exchange gains.

EUR million	2014	2013
Financial expenses	-0.8	-1.2
Financial earnings	0.5	0.4
Exchange gains/(losses)	2.2	-2.9
Total financial result	1.9	-3.6

22. Income taxes

The tax ratio (taxes in percent of earnings before taxes) was 24 % (2013: 36 %). The lower tax ratio in the reporting year was due primarily to the exploitation of tax loss carryforwards from previous years and the geographic distribution of the Group result.

EUR million	2014	2013
Current taxes	-7.8	-11.9
Deferred taxes	-0.4	1.8
Total taxes	-8.2	-10.1

23. Goodwill

In accordance with the consolidation principles, Zehnder Group directly nets acquired goodwill with equity at the time of first consolidation.

If the parts of the acquired goodwill that could be capitalized had been capitalized and written down over a period of five years, the following figures would have resulted:

		31.12.2014	31.12.2013
Impact of theoretical capitalization of goodwill on balance sheet			
Disclosed equity inclusive minority interests	EUR million	281.8	255.5
Equity ratio	%	65.6	61.9
Acquisition value of goodwill			
Status at beginning of business year	EUR million	99.5	99.0
Additions	EUR million	0.5	0.8
Disposals	EUR million	–	–0.3
Status at end of business year	EUR million	100.0	99.5
Accumulated amortization			
Status at beginning of business year	EUR million	–94.7	–92.4
Amortization in current year	EUR million	–1.7	–2.3
Impairment	EUR million	–0.3	–
Status at end of business year	EUR million	–96.7	–94.7
Theoretical net book value of goodwill^[1]	EUR million	3.3	4.8
Theoretical equity inclusive minority interests and net book value of goodwill	EUR million	285.1	260.3
Theoretical equity ratio	%	65.8	62.4
Impact of theoretical capitalization of goodwill on results			
Disclosed net income	EUR million	26.0	18.2
Theoretical amortization of goodwill	EUR million	–1.7	–2.3
Theoretical impairment of goodwill	EUR million	–0.3	–
Net income after amortization of goodwill	EUR million	24.0	15.9

[1] of which EUR 2.2 million (31.12.2014) or EUR 2.5 million (31.12.2013) from the acquisition of associated companies

An additional impairment of value in the amount of EUR 0.3 million was noted on the theoretically capitalized and correctly amortized goodwill (no impairment of value in 2013).

24. Shares granted

The company introduced an employee investment plan in 2001. This plan allows operating unit managers and members of Group management to acquire bearer shares. The bearer shares issued also include the Board of Directors' shares. Half of the fee that the members of the Board of Directors receive is made up of bearer shares. The shares are issued at a discount to the persons entitled to receive them (see compensation report p. 43 also).

The value of shares issued at the time of allocation is equal to the current value. The current value is determined as the closing rate on the day of allocation. The day of allocation is defined as the last day on which the person entitled must inform the company of their acquisition of shares.

The difference between current value at the time of allocation and the issue price is recognized in personnel costs.

		2014	2013
Shares granted			
Shares granted	units	35,171	29,953
Current value on the day of allocation	CHF	40.85	42.80
Personnel costs	CHF	437,000	436,000

25. Options

The options plan was discontinued as of 1 January 2012. According to the regulations, the rights to exercise options from the plan continue to exist until 2019. Each option carries the right to acquire one bearer share at a price fixed at the time of allocation. The rights to exercise options are defined as follows:

		Allocated options units	Exercise price CHF	31.12.2014 Outstanding options units	31.12.2013 Outstanding options units
Allocated options					
Allocation day	Exercise period				
1 March 2006	2 March 2011 – 1 March 2014	13,040	48.53	–	4,000
1 March 2007	2 March 2012 – 1 March 2015	13,920	66.25	6,960	7,680
1 March 2008	2 March 2013 – 1 March 2016	13,440	35.25	6,480	6,480
1 March 2009	2 March 2014 – 1 March 2017	12,880	17.28	5,840	8,240
1 March 2010	2 March 2015 – 1 March 2018	14,080	37.93	9,200	9,680
1 March 2011	2 March 2016 – 1 March 2019	14,480	62.50	10,400	11,360
Total		81,840		38,880	47,440

The options are cancelled if a holder leaves the company. The vesting period is lifted as soon as the holder reaches retirement age. After this, the options must be exercised within 18 months at the latest. The number of options and the average exercise price are made up as follows:

	2014 Average exercise price CHF	2014 Options units	2013 Average exercise price CHF	2013 Options units
Outstanding options				
Outstanding options at 1.1.	45.34	47,440	45.39	52,960
Cancelled options	51.95	–6,160	47.45	–3,360
Exercised options	17.28	–2,400	31.55	–2,160
Outstanding options at 31.12.	46.02	38,880	45.34	47,440
Exercisable options at 31.12.	41.26	19,520	51.37	19,360

The outstanding options are hedged with own shares.

26. Events after the balance sheet date

On 15 January 2015, the Swiss National Bank rescinded the minimum exchange rate of CHF 1.20 to the euro with immediate effect. The value of the Swiss franc increased as a result. The stronger Swiss franc had no impact on the amounts disclosed as at 31 December 2014.

It is not currently possible to estimate what effects the appreciation of the Swiss franc will have on the 2015 business year, as they will depend largely on how the Swiss franc performs in the future.

The 2014 financial statements were approved by the Board of Directors on 2 March 2015.

27. Disclosure of compensation paid to the Board of Directors and the Group Executive Committee

Please refer to the compensation report on page 43 ff.

28. Risk assessment

Zehnder Group operates a risk assessment process, which was approved by the Board of Directors. The risk policy defines a structured process which, in turn, specifies how business risks are to be monitored; it is an integral part of midterm planning. In this process risks are identified, analysed with regard to probability and magnitude, assessed, and measures for risk control are determined. Each member of the Group Executive Committee is required to implement the measures in his area of responsibility. The Board is periodically informed on significant changes in risk assessment as well as on risk management activities undertaken. The internal control system for financial reporting defines control measures to reduce the various risks. Compliance with the internal guidelines is monitored through internal spot checks and periodically by external specialists.

Financial risks are monitored via the treasury department of Zehnder Group under the leadership of the CFO. Risk management focuses on the recognition, analysis and hedging of foreign exchange, interest, liquidity and counterparty risks in order to limit their impact on cash flow and net result.

Overview of Companies

Status 31.12.2014, only active companies,
countries in alphabetical order

		Activity	Capital stock	Interest in %	Consolidated
Belgium					
Mechelen	Zehnder Group Belgium nv/sa	S	800,010	100	fully
Canada					
Vancouver	dPoint Technologies Inc.	S/P	7,929,493	33	at equity
China					
Dachang	Dachang Zehnder Indoor Climate Co. Ltd	P	200,000,000	73	fully
Beijing	Zehnder (China) Indoor Climate Co. Ltd	S	228,250,000	73	fully
Shanghai	Shanghai Nather Air Tech Co. Ltd	S	3,200,000	51	fully
Shanghai	Shanghai Zehnder Comfosystems Co. Ltd	S	USD 400,000	100	fully
Czech Republic					
Prague	Zehnder Group Czech Republic s.r.o.	S	200,000	100	fully
France					
Châlons-en-Champagne	Zehnder Group Châlons-en-Champagne SAS	P	5,400,000	100	fully
Evry	Zehnder Group France	S	7,225,230	100	fully
Evry	Zehnder Group Participations	O	7,744,000	100	fully
Saint Quentin	HET Transport & Logistique SAS	O	687,000	100	fully
Vaux Andigny	Zehnder Group Vaux Andigny SAS	P	4,200,000	100	fully
Germany					
Lahr	Zehnder Group Deutschland GmbH	S	2,000,000	100	fully
Lahr	Zehnder GmbH	P	25,000,000	100	fully
Lahr	Zehnder Group Deutschland Holding GmbH	O	2,100,000	100	fully
Lahr	Zehnder Group Grundstücksverwaltungs-GmbH	O	1,100,000	100	fully
Reinsdorf	Paul Wärmerückgewinnung GmbH	S/P	2,100,000	100	fully
Italy					
Campogalliano	Zehnder Group Italia S.r.l.	S	80,000	100	fully
Vedelago	Zehnder Group Treviso S.r.l.	S/P	99,000	100	fully

		Activity	Capital stock	Interest in %	Consolidated
Netherlands					
Zwolle	Zehnder Group Nederland B.V.	S/P	907,560	100	fully
Zwolle	Zehnder Nederland B.V.	S	18,000	100	fully
Poland					
Boleslawiec	Zehnder Group Boleslawiec Sp. z o.o.	P	51,280,000	100	fully
Wroclaw	Zehnder Polska Sp. z o.o.	S	4,000,000	100	fully
Russia					
Moscow	OOO «Zehnder GmbH», Russia	S	1,866,000	100	fully
Spain					
Cerdanyola del Vallès	Zehnder Group Iberica Indoor Climate, S.A.	S	300,500	100	fully
Sweden					
Täby	Zehnder Group Nordic AB	S	6,400,000	100	fully
Täby	Zehnder Group Motala AB	P	120,000	100	fully
Switzerland					
Gränichen	Zehnder Group AG	O	586,800		fully
Gränichen	Zehnder Group Produktion Gränichen AG	P	2,900,000	100	fully
Gränichen	Zehnder Group International Ltd	O	1,000,000	100	fully
Gränichen	Zehnder Group Schweiz AG	S	500,000	100	fully
Gränichen	Zehnder Group Swiss Property AG	O	2,000,000	100	fully

		Activity	Capital stock	Interest in %	Consolidated
Turkey					
Manisa	Hotpan Isitma Sistemleri Pazarlama ve Ticaret Aş	S	50,004	100	fully
Manisa	Sanpan Isitma Sistemleri Sanayi ve Ticaret Aş	S/P	4,480,004	100	fully
Manisa	Zehnder Group İç Mekan İklimlendirme Sanayi Ticaret Ltd Şti	S	25,000	100	fully
UK					
Camberley	Zehnder Group UK Limited	S	3,500,002	100	fully
London	Zehnder Group UK Holdings Limited	O	20,000,000	100	fully
Rustington	Zehnder Group Lenham Ltd (formerly Ventilation Holding UK Ltd)	P	3400002	100	fully
St. Peter Port	Zehnder Group Finance Ltd	O	EUR 82,485,738	100	fully
USA					
Buffalo NY	Hydro-Air Components, Inc.	S/P	55,950	100	fully
Greenland NH	Zehnder America, Inc.	S	10	100	fully
Ward Hill MA	Runtal North America, Inc.	S/P	193,522	100	fully
Ward Hill MA	Zehnder Group US Holdings, Inc.	O	30	100	fully

Share capital in local currency unless otherwise stated

P: production

S: sales

O: other functions

Report of the Statutory Auditor

on the Consolidated Financial Statements to the General Meeting
of Shareholders of Zehnder Group Ltd, Gränichen

As statutory auditor, we have audited the accompanying consolidated financial statements of Zehnder Group Ltd, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes, as presented on pages 61 through 91, for the year ended 31 December 2014.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Markus Forrer
Licensed Audit Expert
Auditor in Charge

Daniel Spichiger
Licensed Audit Expert

Basel, 2 March 2015

Balance Sheet

Zehnder Group AG

CHF million	Notes page 96 ff	2014 31 December	2013 31 December
Assets			
Current assets			
Liquid assets		4.4	3.8
Securities	1	2.6	3.1
Accounts receivable from Group companies		2.5	10.8
Accounts receivable from third parties		0.2	0.1
Prepayments and accrued income		–	0.1
Total current assets		9.8	18.0
Financial assets			
Participations	2	337.3	305.5
Loans to Group companies		149.4	144.6
Loans to third parties		0.2	0.2
Total financial assets		486.9	450.4
Total assets		496.7	468.3
Liabilities & shareholders' equity			
Short-term liabilities			
Short-term liabilities to Group companies		0.1	0.2
Short-term liabilities to third parties		0.1	0.1
Short-term loans to Group companies		30.6	5.9
Short-term loans to third parties		1.2	20.6
Accruals and deferred income		1.9	2.1
Total short-term liabilities		33.8	29.0
Long-term liabilities			
Provisions		60.0	60.0
Total long-term liabilities		60.0	60.0
Shareholders' equity			
Share capital	3	0.6	0.6
General legal reserves		46.5	46.5
Legal reserve for own shares		2.8	3.6
Special reserves		1.4	0.6
Profit carried forward		321.6	301.6
Net income for the year		30.0	26.4
Total shareholders' equity		402.9	379.3
Total liabilities and shareholders' equity		496.7	468.3

Income Statement

Zehnder Group AG

CHF million	Notes page 96 ff	2014	2013
Income			
Dividend income	4	25.6	26.2
Interest income		7.6	5.7
Other operating income		2.7	2.0
Total income		35.9	34.0
Expenses			
Personnel expenses		-1.0	-0.9
Interest and other financial expenses		-2.1	-3.4
Taxes		-0.5	-0.3
Other expenses		-2.1	-3.0
Total expenses		-5.8	-7.6
Net income for the year		30.0	26.4

Notes

to the Financial Statements

General comments

As Zehnder Group AG has a pure holding-company function, the point must be made that the income development of this company in no way reflects the present or future profitability of Zehnder Group. Hence the development of the Group as set out in the consolidated financial statements – and not the individual financial statements of Zehnder Group AG – is decisive for the Board of Directors for their dividend proposal. The aim of the dividend policy laid down by the Board of Directors is to pay out some 30–50 % of the consolidated net income of Zehnder Group to its shareholders.

The balance sheet and income statement are drawn up in line with Swiss company law.

1. Securities

The table below shows the development of this item.

	2014 Bearer shares units	2014 Value per share CHF	2014 Value CHF	2013 Bearer shares units	2013 Value per share CHF	2013 Value CHF
Own shares at 1.1., trading portfolio	28,092	41.00	1,151,772	33,295	44.00	1,464,980
Shares sold	–35,391	39.56	–1,399,955	–30,203	48.53	–1,465,775
Gain/(loss) from sale			–51,076			136,843
Shares bought	31,322	37.53	1,175,473	25,000	42.77	1,069,290
Unrealised price gains/(losses) at 31.12.			63,501			–53,566
Reclassifications	7,299	32.30	235,758	–	–	–
Own shares at 31.12., trading portfolio	31,322	37.53	1,175,473	28,092	41.00	1,151,772
Own shares at 1.1., Long Term Stock Option Plan	47,587	41.00	1,951,067	49,747	44.00	2,188,868
Shares sold	–2,400	24.79	–59,496	–2,160	30.24	–65,326
Gain/(loss) from sale			–38,904			–29,714
Unrealised price gains/(losses) at 31.12.			–192,454			–142,761
Reclassifications	–7,299	32.30	–235,758	–	–	–
Own shares at 31.12., Long Term Stock Option Plan	37,888	37.60	1,424,455	47,587	41.00	1,951,067
Total securities at 1.1.	75,679		3,102,839	83,042		3,653,848
Total securities at 31.12.	69,210		2,599,928	75,679		3,102,839

2. Participations

The direct or indirect majority holdings decisive for the total value of the Group are set out in table form on pages 89 to 91 of this report.

3. Share capital

	2014 Bearer shares units	2014 Registered shares units	2014 Value CHF	2013 Bearer shares units	2013 Registered shares units	2013 Value CHF
Total bearer shares as of 1.1.	9,756,000		487,800	9,756,000		487,800
Total registered shares as of 1.1.		9,900,000	99,000		9,900,000	99,000
Total at 31.12.	9,756,000	9,900,000	586,800	9,756,000	9,900,000	586,800

As in 2013, total share capital amounted to CHF 0.6 million, corresponding to EUR 0.4 million at the exchange rate on 1 January 2003. It is made up of 9,756,000 bearer shares with a par value of CHF 0.05 each and 9,900,000 registered shares with a par value of CHF 0.01 each.

The unlisted registered shares (CHF 0.01 nominal value) are all directly or indirectly held by members of the Zehnder family or by persons closely associated with the family. The great majority of the registered shares is owned by Graneco AG (Switzerland).

4. Dividend income

The dividend income comprises all dividends received by the company. These are generally recognized before deduction of any withholding taxes.

5. Disclosure of ownership structure

According to the information available to the Board of Directors, the following shareholders hold more than 3 % of the share capital of Zehnder Group AG:

- Graneco AG, Gränichen (CH), holds 16,600 bearer shares and 9,771,200 registered shares, corresponding to 49.8 % of the votes (2013: 49.8 %),
- Alecta pensionsförsäkring, ömsesidigt, Stockholm (SE), holds 924,500 bearer shares, corresponding to 4.7 % of the votes (2013: 4.8 %).

For notification of disclosure of significant shareholdings please refer to the website of SIX Swiss Exchange [6].

[6] → www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101&issuer=2375

Members of the Board of Directors and of the Group Executive Committee, including persons closely associated with them, own the following shares and options:

	2014 Bearer shares units ^[1]	2013 Bearer shares units ^[1]	2014 Registered shares units ^[2]	2013 Registered shares units ^[2]	2014 Options unit	2013 Options units
Hans-Peter Zehnder ^[4] Chairman of the Board, Chairman of the Group Executive Committee up to 31.10.2014, China/North America a.i.	123,268 0.6 % ^[3]	106,542 0.5 % ^[3]	20,000 0.1 % ^[3]	20,000 0.1 % ^[3]	1,600	1,600
Thomas Benz Deputy chairman of the Board	23,297 0.1 % ^[3]	21,918 0.1 % ^[3]	–	–	–	–
Urs Buchmann Member of the Board	5,937	4,558	–	–	–	–
Riet Cadonau Member of the Board	1,379	–	–	–	–	–
Enrico Tissi Member of the Board	12,657	10,278	–	–	–	–
Jürg Ammann Operations Europe up to 11.6.2014	–	900	–	–	–	–
Dominik Berchtold Chairman of the Group Executive Committee, CEO, sales Nordic	16,179	11,990	–	–	1,440	1,440
Josef Brügger Finance, Controlling and IT	3,620	2,480	–	–	960	1,200
Stephen Grao Americas/Asia-Pacific/International & UK up to 13.1.2014	–	5,722	–	–	–	960
Tomasz Juda Competence Center Radiators/RHC as of 1.11.2014	–	–	–	–	–	–
Cyril Peysson Sales Europe/Middle East/Africa (EMEA)	26,818 0.1 % ^[3]	22,713 0.1 % ^[3]	–	–	1,920	1,920
Olaf Schulte Competence Center Comfosystems as of 1.11.2014	–	–	–	–	–	–

[1] provided they were acquired under the employee share ownership program, some of these shares may be subject to a restriction period (see compensation report page 43 ff)

[2] the registered shares are not listed

[3] share of total votes in % (only if > 0.1 %)

[4] excluding Graneco AG, in which Hans-Peter Zehnder holds a 51.1 % stake

6. Pledged assets and guarantees

The company has guarantee obligations and pledged assets in favour of subsidiaries in the amount of EUR 3.3 million (2013: EUR 5.5 million).

The company has taken over a rental guarantee for two subsidiaries. There is no upper limit to this commitment. The company has committed itself to balance the loss in excess of the free reserves of a subsidiary. There is no upper limit to this commitment. The company has undertaken to guarantee all liabilities of a subsidiary vis-à-vis its creditors. There is no upper limit to this commitment.

The company belongs to a VAT group which comprises all the Swiss companies in Zehnder Group and is thus jointly and severally liable vis-à-vis the Swiss Federal Tax Administration for any VAT debts of this VAT group.

7. Events after the balance sheet date

On 15 January 2015, the Swiss National Bank rescinded the minimum exchange rate of CHF 1.20 to the euro with immediate effect. The value of the Swiss franc increased as a result. The stronger Swiss franc had no impact on the amounts disclosed as at 31 December 2014.

It is not currently possible to estimate what effects the appreciation of the Swiss franc will have on the 2015 business year, as they will depend largely on how the Swiss franc performs in the future.

8. Risk assessment

Zehnder Group operates a risk assessment process, which was approved by the Board of Directors. The risk policy defines a structured process which, in turn, specifies how business risks are to be monitored; it is an integral part of midterm planning. In this process risks are identified, analysed with regard to probability and magnitude, assessed, and measures for risk control are determined. Each member of the Group Executive Committee is required to implement the measures in his area of responsibility. The Board is periodically informed on significant changes in risk assessment as well as on risk management activities undertaken. The internal control system for financial reporting defines control measures to reduce the various risks. Compliance with the internal guidelines is monitored through internal spot checks and periodically by external specialists.

Financial risks are monitored via the treasury department of Zehnder Group under the leadership of the CFO. Risk management focuses on the recognition, analysis and hedging of foreign exchange, interest, liquidity and counterparty risks in order to limit their impact on cash flow and net result.

Proposal on the Appropriation of Earnings

	CHF
The balance sheet profit available for distribution comprises	
Net income for 2014 according to the income statement	30,037,260
+ retained earnings from previous year	321,581,414
Balance sheet profit available to the general meeting of shareholders	351,618,673
The Board of Directors proposes the following appropriation of earnings	
Payment of a dividend	11,736,000
To be carried forward to new account	339,882,673
Total	351,618,673

As the legal reserve corresponds to 20 % of the share capital, an allocation to the reserves is not required.

Report of the Statutory Auditor

on the Financial Statements to the General Meeting
of Shareholders of Zehnder Group Ltd, Gränichen

As statutory auditor, we have audited the financial statements of Zehnder Group Ltd, which comprise the balance sheet, income statement and notes as presented on pages 94 through 99 for the year ended 31 December 2014.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Markus Forrer
Licensed Audit Expert
Auditor in Charge

Daniel Spichiger
Licensed Audit Expert

Basel, 2 March 2015

Further Information for Investors

For further information please contact:

Zehnder Group AG
Investor Relations
Moortalstrasse 1
5722 Gränichen / Switzerland

Phone + 41 62 855 1506
Fax + 41 62 855 1515
investor-relations@zehndergroup.com
www.zehndergroup.com
Press releases [\[7\]](#)

Bearer shares

Security number	13 255 733
SIX	ZEH
Bloomberg	ZEH SW
Reuters	ZEH S

In accordance with Art. 8 of the articles of association, the opting out clause applies.

Registered shares (unlisted)

Security number 13 312 654

Company calendar

Announcement of sales for 2014	16.1.2015
Annual report 2014	6.3.2015
Press conference on financial statements and analysts' meeting	6.3.2015
General meeting of shareholders	15.4.2015
Ex-dividend date	17.4.2015
Dividend payout	21.4.2015
Six-month report	31.7.2015
End of business year	31.12.2015
Announcement of sales for 2015	15.1.2016

[\[7\] → www.zehndergroup.com/en/news-events](http://www.zehndergroup.com/en/news-events)

Information and reports, as well as this annual report, are available in German and English. The German version is binding.

General meeting of shareholders 2016

The general meeting of shareholders 2016 will be held on 6 April 2016 in Suhr (Switzerland).

Shareholder information

Zehnder Group AG regularly informs interested parties on business developments and major events in the Group. Should you wish to receive such press releases, please contact us at the above address or register direct on our website [\[8\]](#).

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Moortalstrasse 1
5722 Gränichen/Switzerland

Phone +41 62 855 1506
Fax +41 62 855 1515
investor-relations@zehndergroup.com
www.zehndergroup.com

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Zehnder Group AG
Moortalstrasse 1
5722 Gränichen / Switzerland
T +41 62 855 1506
F +41 62 855 1515
investor-relations@zehndergroup.com
www.zehndergroup.com

